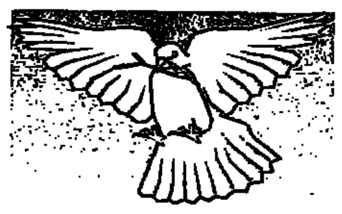
FINANCIAL TIMES

Romania's PM
Forcing down the bitter pill
Page 2



Mideast dialogue
Europeans take larger role
Europa, Page 10

Germany
How to keep jobs at home
Management, Page 19

TOMORROW'S
Weekend FT
If it's funny, it's American

World Business Newspaper http://www.FT.com FRIDAY FEBRUARY 21 1997

Smugglers exploit EU differences to tune of $5bn

International criminals are exploiting the removal of border controls and the lack of co-operation between member states of the European Union and are evading customs duties worth billions of ecus, a European Parliament inquiry found. It said failure to clamp down on smuggling – mainly of cigarettes – probably costs at least Ecu4.5bn ($5.19bn) in lost revenues, and losses may run into *tens of billions*. Page 12

Split widens in Ulster: John Hume, an architect of the Northern Ireland peace process, said a vote for Sinn Féin in Britain's forthcoming general election would be a vote for "the killing of innocent human beings by the IRA". His attack suggested his nationalist Social Democratic and Labour party was about to make a complete break with Sinn Féin leader Gerry Adams. Page 12

Eurofighter up against F-16: Norway said it would choose either the four-nation Eurofighter or the US Lockheed Martin F-16 for its next combat aircraft. The announcement is a blow to France's Rafale fighter and the US McDonnell Douglas F/A-18, and marks the first export competition between the Eurofighter and the F-16. Page 7

Brazil faces huge back-pay claim: Brazil's plans to cut its fiscal deficit faced a $25bn setback after its highest court ruled in favour of 11 civil servants who said they should receive a 29 per cent pay increase awarded to military officers in 1993. Page 3

Pay up by 7.6% for US executives: Chief executive officers in the US saw their salaries rise by 7.6 per cent last year, compared with 4.6 per cent budgeted for by their companies over all, according to a report by the Arthur Andersen consultancy and the Financial Executive Institute. Page 14

GKN hope over damages: Shares in the UK engineering group GKN rose after a US judge signalled he might slash a damages award. GKN faced penalties of up to $740m for diverting advertising fees from 2,500 franchisees of the Meineke exhaust chain in the US. Page 17

South Africa to scrap landmines: Defence minister Joe Modise said South African defence forces would begin destroying a stockpile of 160,000 landmines, retaining a limited number for training in mine removal techniques.

Diplomat to face US charges: A Georgian diplomat involved in a Washington car crash that killed a 16-year-old girl surrendered to police to face possible involuntary manslaughter charges. Georgia had waived diplomatic immunity privileges for Georgy Makharadze.

Award in fatal rugby tour crash: The parents of UK soldier Lt Michael Whitley, who was killed in a minibus crash on a rugby tour in America, have won compensation from the US military. Fifteen other soldiers from the Duke of Wellington's Regiment were hurt when the US army driver fell asleep at the wheel.

Radioactive cash found: Belarussian border guards said a businessman from Moscow was found carrying radioactive US $100 bills. Some of the notes in the $30,000 batch were said to be "seriously dangerous" to people's health.

Russia celebrates the Kalashnikov

Fifty years on, the Russian military yesterday celebrated the anniversary of the Kalashnikov assault rifle. Mikhail Kalashnikov, the rifle's 78-year-old inventor, holds one of the weapons at the opening of an exhibition in Moscow. More than 70m have been produced. Page 2

FT.com: the FT web site provides online news, comment and analysis at http://www.FT.com

STOCK MARKET INDICES

New York lunchtime		
Dow Jones Ind Av	6,978.57	(-41.56)
NASDAQ Composite	1,355.45	(-10.13)
Europe and Far East		
CAC40	2,575.24	(-19.52)
DAX	3,196.03	(-37.72)
FTSE 100	4,356.1	(-1.3)
Nikkei	19,051.71	(+452.59)

US LUNCHTIME RATES

Federal Funds	5$\frac{5}{16}$%
3-mth Treas Bills: Yld	5.072%
Long Bond	100$\frac{5}{32}$
Yield	6.599%

OTHER RATES

UK: 3-mo Interbank	6$\frac{3}{16}$%	(same)
UK: 10 yr Gilt	102$\frac{3}{4}$	(102$\frac{13}{32}$)
France: 10 yr OAT	106.82	(106.86)
Germany: 10 yr Bund	103.54	(103.61)
Japan: 10 yr JGB	103.9396	(104.495)

NORTH SEA OIL (Argus)

Brent Dated	$20.53	(21.11)

GOLD

New York Comex		
(Feb)	$352.4	(347.5)
London:		
close	$345.95	(346.8)

DOLLAR

New York: lunchtime		
£	1.6133	
DM	1.6856	
FFr	5.6955	
SFr	1.477	
Y	122.825	
London:		
£	1.6114	(1.6123)
DM	1.6896	(1.694)
FFr	5.7072	(5.7238)
SFr	1.482	(1.484)
Y	123.075	(124.075)
Tokyo close:	Y 123.635	

STERLING

DM	2.7226	(2.7312)

9 770174 736159 08

Life carries on in Deng's capitalist crucible

By John Ridding in Shenzhen

Deng Xiaoping still gazes down from a giant billboard above the bustling streets of Shenzhen, the southern Chinese boomtown which became a crucible of his capitalist reforms.

But apart from the mourners beneath his outsize image and the odd red flag fluttering at half mast, there were few signs yesterday of Deng's passing.

Hawkers hustled, punters pushed the local share market down a few notches and traffic belched exhaust fumes into the city's sour air.

"He was a very old man. I was expecting this for a long time," said a businessman standing outside the Good Luck Investor club.

Nearby Ms Wan, a student, lingered to read the newspaper tributes pinned on the public noticeboard. "It is sad, but we are prepared", she said.

Such a low-key reaction might seem harsh given the close ties between Deng and Shenzhen's fortunes. No other city bears his mark so deeply – nor has profited so much from his drive to restore China's creaking economy.

Shenzhen barely existed before the launch of Deng's reforms in 1978. Then it was little more than farmland, with dusty streets and annual industrial output of Yn60m (US$7.2m).

Now it is an economic powerhouse with industrial production of Yn80bn, foreign investment of more than $9bn and 600 tower blocks of 18 storeys or more. Deng, once dubbed China's "Number Two Capitalist Roader" by Mao, always took the road to Shenzhen to further the cause of economic modernisation.

In 1992 he toured the city to spark a national renewal of enthusiasm for free-market reforms, turning China into one of the world's fastest-growing economies.

Smartly-dressed shoppers now wander through Walmart and other western stores. International manufacturers line up alongside the leading edge of China's emerging companies.

But despite Shenzhen's debt to Deng, yesterday's reaction was in many ways a fitting

Continued on Page 12
China will honour Deng, Page 4; Editorial Comment, Page 11; Behind the mask, Page 11

Traders at Hong Kong's futures exchange during frantic trading yesterday following Deng's death Reuter

Extra $5bn subsidy bid for Crédit Lyonnais

By Andrew Jack in Paris and Emma Tucker in Brussels

The French government is about to seek European Commission approval for a plan which could provide up to FFr30bn ($5.26bn) in new aid to Crédit Lyonnais, the troubled bank.

The amount, far higher than the FFr16bn mooted in recent weeks, is in addition to the FFr49bn already provided, which was by far the largest state subsidy ever considered by the Commission. The new demand will be examined closely and will attract opposition from other large banks.

It is also likely to provoke a fierce debate in France, especially in view of leaked estimates of the bank's results circulated yesterday, which suggest it will be able to report operating profits of FFr300m for 1996 and FFr3.4bn for 1997 ahead of any financial assistance.

A spokesman for Mr Karel Van Miert, European Union competition commissioner, said yesterday: "Assets will have to be sold. There is not a shadow of doubt about that. There will be conditions and they will be tougher."

Also, it has emerged this week that Mr Marc Viénot, chairman of Société Générale, the rival private sector bank, wrote to Mr Van Miert last month to complain that any new aid would represent a severe distortion in the intensely competitive French banking sector.

Mr Viénot is already challenging the previous state aid package in the European Court in Luxembourg, and strongly criticised the new sums demanded by Crédit Lyonnais, arguing that the bank could survive without such a substantial increase, which would be designed to boost its solvency ratio to 6 per cent.

French government officials last night played down the latest figure of FFr30bn, insisting that there were no detailed amounts in the plans to be submitted to Brussels. They said it was still impossible to make a clear evaluation of the costs involved.

However, in a little noticed entry in the European Commission's official journal of last December 24, the Commission published its own estimate of what was likely to be demanded. It included a capital injection of FFr8bn-FFr10bn to improve the bank's solvency ratio, and FFr15bn-FFr20bn to cover the costs of writing off a loan Crédit Lyonnais was forced to make to finance more than FFr200bn in assets removed from its balance sheet for sale.

Any new aid would be the third package submitted to Brussels in four years.

In 1995, the Commission approved an initial rescue plan involving FFr45bn of state aid. In return it demanded that Credit Lyonnais sell at least 35 per cent of its foreign assets by next year, including many of its European banking activities. These sales are likely to trigger considerable capital losses for the bank. In October last year, it approved a further FFr3.9bn of emergency aid.

US holds fire over Cuba panel

Washington's stance removes risk of disruption to WTO talks

By Guy de Jonquières in London

The US yesterday kept alive hopes of a settlement with the European Union over the Helms-Burton anti-Cuba law by not seeking to block the formation of a World Trade Organisation panel to rule on the dispute.

The US said it was disappointed the panel had been set up and would refuse to participate in its hearings. It said Helms-Burton, which authorises private US court cases against foreign companies "trafficking" in Cuban assets confiscated by the Castro regime, was a matter of foreign policy and national security, not a trade issue.

However, if talks with the EU failed to resolve the dispute promptly, Washington said it would make its objections formal, and declare that the panel had "no competence to proceed".

The European Commission said Washington's stance had removed the risk of a disruptive confrontation over establishment of the panel and left the door open to further negotiations. "It's fine with us," a spokesman for Sir Leon Brittan, EU trade commissioner, said.

Both sides said they were determined to continue seeking a solution, and that negotiations so far had made good progress.

EU officials said Mr Stuart Eizenstat, US President Bill Clinton's special Cuba envoy, had recently put proposals to Sir Leon which "constituted the basis for negotiations", though they did not meet all the EU's demands.

Yesterday's US statement was made after Mr Renato Ruggiero, WTO director-general, responded to an EU request by naming the members of a disputes panel to hear the Helms-Burton case.

The panellists are Mr Arthur Dunkel, a Swiss former director-general of the General Agreement on Tariffs and Trade, the WTO's predecessor; Mr Tommy Koh, Singapore's ambassador-at-large; and Mr Edward Woodfield, formerly New Zealand's chief trade negotiator.

The panel has six months to reach a decision on the EU's complaint that Helms-Burton violates WTO rules. President Clinton has promised to continue waiving the law's main provisions every six months, provided the EU keeps pressure on Cuba to promote democracy.

But Sir Leon says the US must provide stronger safeguards against the application of Helms-Burton and of the D'Amato Act, which penalises foreign investors in the energy industries of Libya and Iran.

World Trade, Page 7

Russian steel company in shareholder rights battle

By John Thornhill in Moscow

A group of foreign and Russian investors yesterday launched a high-profile legal battle to force one of Russia's biggest manufacturing companies to respect shareholder rights.

Novolipetsk Metallurgial Kombinat (NLMK), which produced 17 per cent of Russia's steel output last year, has rejected for "technical reasons" the candidates proposed as independent directors by the investor group.

The investors said yesterday that its second attempt in two years to nominate four independent directors to serve on the company's nine-member board had again been dismissed out of hand.

The row is seen by many other investors as an important test of the country's corporate governance regime.

It is part of a wider struggle to establish and enforce the concept of shareholder rights in Russia's half-formed market economy. Investors claim the dispute was even raised during the recent visit of Mr Victor Chernomyrdin, prime minister, to Washington.

The investor group includes Cambridge Capital Management, a US hedge fund, the Sputnik fund in which Mr George Soros is a significant investor, and Oneximbank, one of Russia's most powerful commercial banks. Salomon Brothers, the investment bank, is advising Cambridge Capital Management.

It has collectively bought more than 40 per cent of NLMK's shares over the past few years but has been unable to obtain meaningful financial statements or appoint external auditors. Under Russian law, any shareholder with more than 2 per cent of a company's equity has the right to nominate directors for approval at its annual meeting.

The investor group has now instructed Mr Henrikh Padva, one of Russia's most experienced litigators, to press its claim through the courts. The outside investors want to appoint board members to open the company's operations to outside scrutiny. The investors hope to resolve the dispute before a shareholder meeting in April.

Mr Ivan Frantsenyuk, the company's general director, said the company had little need of outside help.

"In 1997 the group of outside shareholders forwarded a list of six candidates out of nine. Regrettably, it is essential to observe that from this stated group there have been absolutely no suggestions other than the idea of recapitalising the company and issuing debt instruments." He added the company had performed "satisfactorily" in 1996.

Editorial Comment, Page 11

CONTENTS

LONDON · LEEDS · PARIS · FRANKFURT · STOCKHOLM · MADRID · NEW YORK · LOS ANGELES · TOKYO · HONG KONG

Berlusconi offers 'pact for Europe'

Opposition leader proposes bipartisan approach on monetary union

By Robert Graham in Rome

Mr Silvio Berlusconi, leader of Italy's rightwing opposition, yesterday proposed a "pact for Europe" with the centre-left government to *ensure the country took part* in the single European currency.

The offer of a bipartisan approach to head off the potentially explosive issue of Italy's exclusion from the core of countries forming the euro received a *cautious* reaction from the government.

This was largely because of the astute timing of the *offer. It was made on the* opening day of the congress of the Party of the Democratic Left (PDS), the dominant partner in the centre-*left government.*

Mr Massimo D'Alema, leader of the PDS, has been trying for some time to persuade Mr Berlusconi to adopt a bipartisan approach on key national issues. But a sizeable proportion of the PDS is *wary of doing a deal* with Mr Berlusconi – not least because they fear this would involve substantial cuts in pension and welfare *benefits.*

Mr Berlusconi launched his offer in a letter to the PDS congress published on the front page of L'Unita, the party daily newspaper. The letter said every party had to confront seriously the idea of "a pact for Europe which does not eliminate the differences between government and opposition but helps the country move in the right *direction*".

Expanding on this theme he said: "Each party must retain the role assigned by the electorate. . . . but every*one must co-ordinate a com*mon stance on specific questions of national interest."

He pointed out that government and opposition had already done this in January to form the joint parliamentary commission to draw up proposals for constitutional reform.

Mr Berlusconi's main ally, the rightwing National Alliance (AN), was sceptical. *But AN has much to lose by* his moving closer to the government. Outright rejection of the proposal came from the hardliners in Reconstructed Communism (RC) who suspect Mr Berlusconi and Mr D'Alema might forge an agreement to reform pensions at their cost.

However, any government-opposition deal would increase the likelihood of the *1998 budget being brought* forward to this summer and it being allowed to cover 18 months. Bringing the budget forward was proposed last *month* by Mr Carlo Azeglio Ciampi, the treasury minister, in an attempt to add credibility to *Italy's commit*ment to achieve a sustained improvement in its public finances.

● The government yester*day received an encouraging* boost on the inflation front. Preliminary figures from the country's main cities showed consumer prices in February were only increasing at 2.2 per cent on an annualised basis. This was largely because of a drop in electricity charges. But if confirmed, inflation will be running at well below the 1997 target of 2.5 per cent.

Emi plea on bank payments systems

By Wolfgang Münchau, Economics Correspondent

The European Monetary Institute, forerunner of the future European central bank, yesterday urged EU member states to step up efforts to harmonise national payments systems ahead of monetary union. These systems are the way in which banks and central banks conduct their financial transactions, and the *request highlights one of the most* important technical issues still to be resolved.

Central banks use the payments systems to provide commercial banks with intra-day or overnight liquidity, or for security repurchase agreements, a key monetary policy instrument in most EU member states. The banks, in return, put up collateral in the form of high quality securities.

The Frankfurt-based Emi said national systems were insufficiently compatible, differing in respect of opening hours, settlement times and legal rules. They would also need to be compatible with Target, the future real-time payment system for the euro.

"Even though all systems are currently able to provide settlement ser*vices for securities transactions* by means of some form of delivery versus payment mechanism, major differences exist concerning participants in the systems, settlement procedures, risk management measures, legal aspects, and the involvement of the central bank," it said.

These systems were not yet truly European, the Emi pointed out. For example, it was uncommon for commercial banks to use securities deposited in another member state as collateral. "Present arrangements would probably be inadequate to enable central banks' counterparties in monetary policy operations to use securities deposited in another member state in a systematic way."

To bring about a system that did not discriminate on the basis of a collateral's "nationality", the Emi *proposed two scenarios to create an* interface between national central banks that would allow foreign deposits to be used as collateral.

Under one model a commercial bank seeking liquidity from a central bank in country A could deposit collateral with a national central bank in country B, which would take on the role of a custodian.

Under an alternative scenario, the central bank in country B would give a legally binding guarantee to the central bank in country A. While the two scenarios may have different legal ramifications, they both involve two national central banks, as opposed to only one.

The Emi outlined a two-tier system to determine which securities qualify as collateral. Tier-one securities would be part of a common list *acceptable anywhere in the Emu* area. National central banks could also propose tier-two lists, made up of *securities relevant to their local* markets.

The institute also urged further harmonisation of opening hours. *It* was agreed *last* year that Target will be open between 7am and 6pm central European time.

Romanian PM plays high stakes game

Chrystia Freeland on a daring bid to transform the economy

Mr Victor Ciorbea, the prime minister of Romania, could not resist borrowing Churchill's famous promise of "blood, toil, tears and sweat" when he announced his radi*cal economic reform pro*gramme this week.

He is not leading his nation to war. But he has set Romania one of the greatest challenges a country in peacetime can face: a tough economic reform programme which he predicts will depress gross domestic product by 2 per cent this year *and deprive the average fam*ily of a month's salary.

Speaking in an office humming with the exhilaration and exhaustion of a war room, Mr Ciorbea claimed Romania's desperate economic circumstances had left his new administration with no alternative.

"We are applying intensive care treatment to a gravely ill economy," he said, rubbing eyes heavy with the strain of two months of intense work cobbling together Romania's boldest ever attempt at market reforms.

This week Mr Ciorbea's centre-right government, elected last November, set in *motion a bold combination* of macroeconomic stabilisation and structural reforms. The government has promised to slash the budget deficit from last year's giddy heights of 12-13 per cent of GDP to just 4.5 per cent this year.

Most state-controlled prices were liberalised this week, causing queues for the last artificially inexpensive goods. The foreign exchange market was thrown open, some taxes will be increased and the cabinet hopes to rein in inflation by the end of the year.

At the same time Mr Ciorbea has set out a programme *of vigorous structural* reforms. He promises to privatise 50 companies a week, force inefficient, state-owned industrial giants into bankruptcy and eliminate disguised subsidies (unrepaid central bank loans) to the agricultural sector which sank the Romanian economy last year.

International Monetary Fund officials say the programme is Romania's fourth stab at macroeconomic stabilisation since the 1989 revolution which deposed and executed the Communist dictator Nicolae Ceaușescu,

"Unfortunately, in the past, only a few macroeconomic measures were taken. Moreover, they were not accompanied by deep, structural reforms and therefore they failed," said Mr Ciorbea, a lawyer and former mayor of Bucharest.

By combining austere macroeconomic stabilisation with nitty-gritty structural reforms (the plan includes privatising 55 state-owned *pig and poultry farms), he is* convinced his plan will avoid the fate of its predecessors.

"The Romanian people have been asked very often to make sacrifices. We are asking them to make another sacrifice, but for the last time," Mr Ciorbea said, in the slow, measured rhythms of his native Transylvania, a dialect Romanians associate with trustworthiness.

*"If we apply all these mea*sures together, macroeconomic stabilisation, privati*sation and restructuring,* we will succeed, so that in six months we will begin to see positive results," he said.

Mr Ciorbea's enthusiasm has won over western financial institutions. He led a marathon negotiating ses*sion which ended at 5am on* Sunday, in which Romania concluded a preliminary agreement with the *IMF* and World Bank for some $1.2bn in loans.

The prime minister's next target is international investors. "All countries of our size are looking for foreign investors," he told Romanians this week. "We have arrived late in this competition and that is why it is not *enough to make a good offer.* It must be a shockingly good offer: one which cannot be ignored."

He said he would give foreigners unlimited and equal access to privatisation and ensure that the process was transparent. Bucharest is also planning to tap into international capital mar*kets to raise between $1bn* and $2bn with hard currency government bonds this year.

But Mr *Ciorbea*, a former trade union leader, realises that the workers he once represented will be among those hardest hit by the austerity package. To soften the blow, his programme sets aside 10 per cent of GDP to fund targeted social assistance to the country's poorest, including tripling the *number of soup kitchens and* increasing child support and old age pensions.

Even so, Mr Ciorbea predicts that the former Communist opposition, which ruled the country until the autumn ballot, will seek to capitalise on the high initial price of reform. Ex-Communists still control important state-owned industries and the bureaucracy.

"The opposition is betting on the fact that there are strong economic structures which are opposed to reform, structures which they control," he said. "They will try to exploit social tensions."

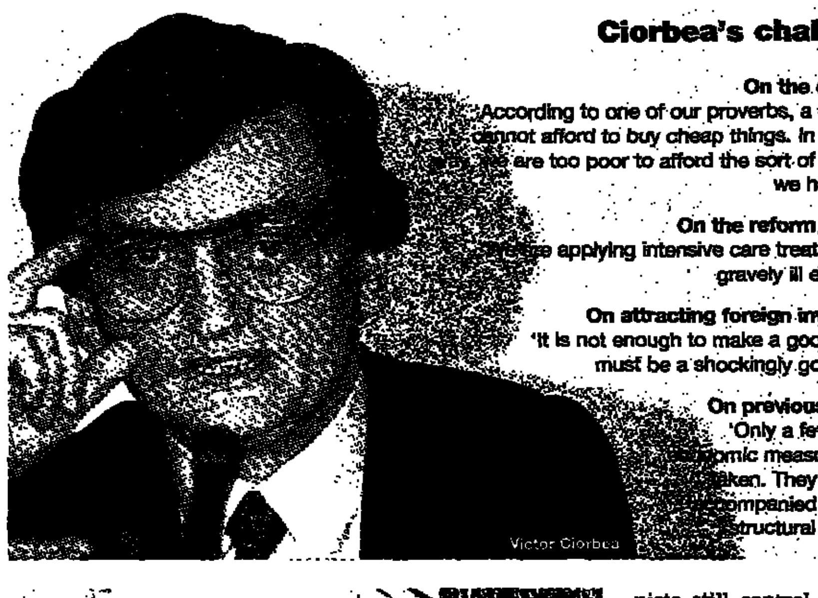
*Mr Ciorbea remains "opti*mistic" that Romanians will resist populism and stoically suffer the next six months "because people know we have no alternative".

His government has bolstered what, for now, seems to be impressive support for the tough programme on the streets of Bucharest with an *aggressive public informa*tion campaign. The prime minister has also launched a high-profile attack on corruption to convince his countrymen that the harsh policies are for the collective good and not in the interests of a narrow and venal elite.

In common with the citizens of most post-Commu*nist nations of eastern* Europe, Romanians passionately hope to join the west*ern side of the continent.* Mr Ciorbea has told them that the only way to do that is to swallow his bitter economic medicine.

When he announced his reform package, he spoke of the "humiliation" Romanians have felt over the past few years as their country *fell behind in the eastern European race for* integration with the west.

As the last of the cheap *petrol and bread run out,* Mr Ciorbea is hoping that the dream of joining their western neighbours will give Romanians the patience to endure just a little bit longer.



Ciorbea's challenge

On the economy
'According to one of our proverbs, a poor man cannot afford to buy cheap things. In the same way we are too poor to afford the sort of economy we have now.'

On the reform package
'We are applying intensive care treatment to a gravely ill economy.'

On attracting foreign investment
'It is not enough to make a good offer, it must be a shockingly good offer.'

On previous failures
'Only a few macro-economic measures were taken. They were not accompanied by deep, structural reforms.'

Romanians queue for bread, the price of which is expected to rise sharply under the economic programme *Reuter*

Angry clashes flare in Tirana

Albanian protesters yesterday stoned riot police who threw stones back and fired live rounds into the air to disperse an angry crowd in the worst violence the *capital Tirana has seen* since popular unrest erupted last month, Reuter reports from Tirana.

Truckloads of police, supported by plain-clothes security forces, beat protesters, pushing back a crowd of about 1,000 people which attempted to push back into the city centre after an anti-government demonstration in the suburbs had ended.

A police cordon trying to hold them back gave way and the protesters confronted riot police. Witnesses counted at least four people who were bleeding, *either from stones or being* hit by police batons.

About an hour after the clashes, police had again taken control and the situation in the capital returned to calm, but security forces kept a high profile.

Earlier, some 7,000 protesters demonstrated peacefully at a football field outside Tirana against the government's handling of the collapse of a series of pyramid schemes which wiped out the savings of thousands of Albanians.

Investors blame the rightwing government of Presi*dent Sali Berisha and his* Democratic party for not regulating the schemes. In Tirana, Mr Berisha addressed a rally of some 5,000 party faithful.

Throughout the day, thousands of desperate investors swarmed around the country's biggest holding company after it offered to refund money to thousands of small investors. More than 2,000 people pushed and shoved at the fence around the main payout office of the Vefa holding company, which froze all accounts last month.

Vefa, which *has 240* businesses and 80,000 investors, froze its client accounts, fearing panic withdrawals after the fraudulent companies collapsed. On Wednesday Vefa said it would allow those with deposits of $5,000 or less to withdraw their money. That could mean paying 48,000 people about $240m over the next two or three weeks.

Russian rifle fires national pride

By Chrystia Freeland in Moscow

Russia's top brass, humiliated by Nato plans to *expand eastward and* bedevilled by chronic underfunding, yesterday retreated to a *happier era* in an exuberant celebration of the 50th anniversary of the invention of the Kalashnikov rifle.

"Happy Birthday to You, Kalashnikov!" proclaimed Krasnaya Zvezda, the army newspaper, in a banner headline.

A flattering picture of the birthday boy accompanied an article proudly describing the Russian rifle's international popularity – some 70m have been made and it is used in 55 countries.

The Kalashnikov "has killed millions of foreigners," Moskovsky Komsomolets, the capital city's most-read newspaper, observed cheerfully – but adding glumly: "Unfortunately, it has also helped quite a lot of Russians to leave this world."

The biggest birthday party was thrown *at the Museum* of the Armed Forces, where an exhibition devoted to the history of the Kalashnikov opened yesterday.

More than 40 are on display, including one which a north Vietnamese fighter once used to kill 78 US soldiers in a single battle.

Stalin's personal Kalashnikov and a flag of Mozambique, which includes a drawing of the Russian rifle, are also featured.

For the elite Russian generals whose battered black Volga cars crowded around the museum entrance, it was a moment to savour past triumphs.

"The Kalashnikov is the world's most reliable instrument of war," said General Vladimir Mikheev, as he stood on the museum steps, just a few feet from the man-sized bust of Lenin which towers over the building's central stairway. "The *Kalashnikov* represents the genius of Russia.

"Now is a very difficult period in Russia's history," he said. "But we have had many difficult periods and we have always survived. Historic achievements like the Kalashnikov help the young boys who are only now joining the army to have faith in the future."

In one of the museum's reception rooms, Moscow's past and present military establishment toasted Mr Mikhail Kalashnikov, the rifle's 78-year-old inventor, who was tossed into an army prison when he came up with Russia's most famous gun. He was a regular soldier on *sick leave who*, like all of Stalin's men, was discouraged from taking initiatives.

One daring Moscow daily newspaper threw a wet blanket in the direction of the festivities by reminding readers that, in recent years, Kalashnikovs have been more effective in the hands *of Russia's opponents than* its own soldiers: the mujahideen in Afghanistan and the fighters in Chechnya were armed with the rifle designed by their adversary.

But Russians, convinced that Nato's planned eastward expansion will set the seal on their nation's decline as a military power, took solace in one development.

The still sprightly Mr Kalashnikov is *reported to have* recently taken a business trip to Turkey on behalf of the factory now run by his son. "Even though they are part of Nato, the Turks like Russia's guns," one Moscow observer said.

EUROPEAN NEWS DIGEST

Russia warning to Albright

Mrs Madeleine Albright, the US *secretary of state*, arrived on her maiden visit to Moscow yesterday to face a chorus of opposition to the eastward expansion of the Nato military alliance.

Mr Yevgeny Primakov, the Russian foreign minister, led the attack with the warning that "Russia has a negative position on Nato expansion and will continue to hold this position".

His words were echoed by a Kremlin spokesman, a top communist politician and one of Russia's most prominent businessmen. Mrs Albright is making a two-day visit to Russia in an effort to persuade Washington's former cold war opponent that Nato enlargement does not pose a threat.

But the Kremlin yesterday in turn received a dressing down from the country many Russians believe should be their partner. In an interview in a Moscow newspaper, Mr Leonid Kuchma, the Ukrainian president, accused Russia of taking an imperialist attitude towards Ukraine and said the Kremlin's aggression was pushing its neighbours into Nato's embrace. *Chrystia Freeland, Moscow*

Concern over Swedish wages

Swedish wage increases are running at a rate of 4.5 per cent a year – well ahead of the European average – at a time of slight deflation in the economy, a group of economists reported yesterday.

They warned that the wage rises threatened to cause an increase in unemployment, already running at a record level of more than 13 per cent of the workforce. The *group, appointed* by the Social Democratic government to monitor labour market developments, said average wage increases had reached 4.5 per cent in both 1995 and 1996 and were set to be at the same level this year. Within industry, the level was 5.5 per cent. This compares with a European average of 3.5 per cent over the past two years. *Hugh Carnegy, Stockholm*

Spain back on track

Roads in Spain returned to normal yesterday, according to traffic authorities, after striking truck drivers ended two weeks of blockages without securing their demands.

Most factories hit by supply shortages during the strike were back at work. *The Volkswagen group's main* German plant at Wolfsburg was set to resume production of the Polo model, interrupted because of lack of components from Spain.

However, Mr Javier Arenas, labour minister, warned that the stoppage would have a "negative" impact on the economy and on employment figures. Employers in the Basque region said the strike, which mainly affected *northern areas*, had caused the loss of contracts which could not be recovered.

The strike by self-employed drivers was called off on Wednesday night after five days' negotiations with the government. *David White, Madrid*

French tax proposals

The French government expects proposals for a reform of the country's "taxe professionnelle" or local business tax system by this autumn, it indicated yesterday.

Mr Jean Arthuis, finance and economics minister, said the full 20 members of the commission, which will be chaired by Mr Christian Poncelet, head of the finance commission of the Senate, would be announced next week. He suggested that the way in which the tax is – calculated, who is liable to pay it and the rates imposed would all be up for discussion, and indicated that the public sector's own role –as the larger contributor to the tax – was likely to diminish. *Andrew Jack, Paris*

Poland backs Holocaust bill

Poland's parliament yesterday approved a bill on state relations with Jewish communities, which will enable the nine tiny congregations to recover some properties lost or stolen by the Nazis during and after the second world war.

Mr Pawel Wildstein, head of the Union of Jewish Communities in Poland said: "The Union and I are fairly *pleased that after 800 years of our existence on Polish soil* we have got a basic document like this law regulating relations between the state and the Jews."

Mr Wildstein ridiculed talk that the property Jewish bodies could potentially reclaim represented huge fortunes. *Reuter, Warsaw*

Brussels avoids censure vote

The European Parliament yesterday failed to back a no-confidence vote in the European Commission over its handling of the "mad cow" crisis, but the motion attracted a significant protest vote of 118.

The censure motion – only the third of its kind to be brought since direct elections to the parliament began in 1979 – required at least 314 votes, plus a two-thirds majority of votes cast. *Neil Buckley, Strasbourg*

■ On Wednesday Romanian police arrested Mr Alexandru Dinulescu, the former president of the private Bankcoop bank, on charges of taking bribes and granting preferential credits, state television reported.

■ The trial of Formula One Williams-Renault team chief Frank Williams and five others accused of manslaughter over the death of racing driver Ayrton Senna was adjourned yesterday until February 28.

ECONOMIC WATCH

German M3 shoots up

German money supply growth quickened in January and was well above the annual 5 per cent guideline for this year and next set by the Bundesbank in December. M3, its measure of broad money, was up a seasonally adjusted 1.9 *per cent* in January compared with the average of the final quarter of last year – an annualised rate of 11.7 per cent. Against the final quarter of 1995, it grew at an annualised 8.6 per cent against 7.9 per cent in December. The January figure was strongly affected by a large "statistical *overhang" at the end of last year*, the bank said, adding that money supply numbers early in the year tended to be exaggerated. However, the figures damped hopes of lower official interest rates in the near future. Mr Stephen King, chief European economist of London broker HSBC James Capel, said the "bias towards easing" in Bundesbank policy was beginning to fade. As expected, key interest rates remained unchanged yesterday.

The Bundesbank regards M3 as an important advance indicator of inflation. Another warning came yesterday when the Federal Statistics Office announced wholesale prices had jumped by 1.2 per cent compared with December and by 1.5 per cent against January last year. The price rise was influenced by harsh winter conditions and the fall in the D-Mark's value. *Peter Norman, Bonn*

FINANCIAL TIMES
Published by The Financial Times (Europe) GmbH, Nibelungenplatz 3, 60318 Frankfurt am Main, Germany. Telephone ++49 69 156 850. Fax ++49 69 596 4481. Represented in Frankfurt by J. Walter Brand, Wilhelm J. Brüssel, Colin A. Kennard as Geschäftsführer and in London by David C.M. Bell, Chairman, and Alan C. Miller, Deputy Chairman. The shareholder of the Financial Times (Europe) GmbH is Pearson Overseas Holdings Limited, 3 Burlington Gardens, London, W1X 1LE. Shareholder of this company is Pearson plc, registered at the same address.
GERMANY:
Responsible for Advertising content: Colin A. Kennard. Printer: Hürriyet International Verlagsgesellschaft mbH, Admiral-Rosendahl- Strasse 3a, 63263 Neu Isenburg ISSN 0174 7363. Responsible Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.
FRANCE:
Publishing Director: P. Maraviglia, 42 Rue La Boétie, 75008 PARIS. Telephone (01) 5376 8254. Fax (01) 5376 8253. Printer: S.A. Nord Eclair, 15/21 Rue de Caire, F-59100 Roubaix Cedex 1. Editor: Richard Lambert. ISSN 1148-2753. Commission Paritaire No 67808D.
SWEDEN:
Responsible Publisher: Hugh Carnegy 468 618 6088. Printer: AB Kvällstidningen Expressen, PO Box 6007, S-550 06, Jönköping.

Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.
R

NEWS: EUROPE

Foreign worker ban starts storm in Carinthia

By Eric Frey in Vienna

A far-right member of an Austrian provincial government yesterday started a political storm when he barred contractors employing workers from outside the European Union from winning public-sector construction projects.

"With 30,000 jobless workers in Carinthia, we have to ensure Carinthians find jobs and income first," Mr Karl-Heinz Grasser, economics councillor in the southern province of Carinthia, said announcing the ban.

Carinthia, which has one of the highest jobless rates in Austria, is a stronghold for Mr Jorg Haider, leader of the far-right opposition Freedom Party, who used anti-immigration rhetoric in last October's elections to the European Parliament, winning 28 per cent of votes.

Mr Grasser, 29, is a close aide to Mr Haider. The party leadership endorsed Mr Grasser's order and called for similar measures across Austria. Mr Haider this week used a special parliamentary session on unemployment to call for expulsion of all foreigners without a job.

All other parties, unions and business representatives denounced the order, and constitutional experts said the decree was unlikely to survive a challenge in court.

"It violates the public procurement rules and has no legal base," said the Carinthian business chamber.

The province's governor, Mr Christof Zernatto, a member of the conservative People's Party, warned of serious damage to the international reputation of his province, which relies heavily on tourism.

In recent weeks, unemployment has topped 300,000 for the first time since the second world war, pushing the Social Democratic and People's parties, the members of Austria's ruling coalition, towards a tougher line on foreigners.

Mr Karl Schogl, the recently-appointed interior minister, has signalled a departure from the more liberal policies of his predecessor, Mr Caspar Einem, announcing a cut in the foreign labour quota for next year. The quota covers new foreign job-seekers, as well as guest workers who want to bring their families to Austria, and even transfers of managers by companies.

Construction companies regularly use foreign workers, mostly from Eastern Europe, to fill jobs few Austrians want. About 15 per cent of the 10,000 building workers in Carinthia come from Slovenia, Croatia and Bosnia-Hercegovina; excluding them from public contracts would put a heavy burden on companies and employers alike.

Carinthia's public contracts for roads, buildings and maintenance were worth about Sch1.2bn ($101.6m) last year. Mr Grasser's order theoretically affects contractors from all EU countries, but few foreign companies participate in public building projects in Carinthia.

A Belgian law that states citizens from other European Union countries must leave the country if they have not found jobs within three months violates the fundamental right of EU citizens to seek work across the Union, the European Court of Justice ruled yesterday, Reuter reports from Luxembourg.

It said countries may require unsuccessful job hunters to leave after a "reasonable period", but they must be given a chance to prove they are continuing to seek work and have a genuine chance of finding it.

The court also upheld a European Commission argument that two other laws represented financial and administrative obstacles to the free movement of workers.

One requires workers from other EU countries planning to stay for at least one year to obtain and pay for two three-month registration certificates instead of a residence permit during their first six months in the country. Another requires those expecting to stay for no more than three months to obtain and pay for a residence document.

Striking Greek teachers clash with riot police

By Kerin Hope in Athens

Striking Greek teachers yesterday scuffled with riot police outside the education ministry in central Athens, as the Socialist government hardened its position in the latest dispute over efforts to tighten fiscal policy and restrain public sector pay.

Primary schoolteachers had returned to work after deciding to suspend a month-long strike, but secondary teachers said they would extend the walkout for another week. The dispute has grown increasingly bitter, with the government threatening to fine striking teachers and to extend the school year into the summer.

Secondary teachers are demanding a 40 per cent increase in their basic monthly salary to Dr250,000 ($950) and the hiring of 6,000 more teachers to reduce class sizes and keep schools open in mountain districts and on remote Aegean islands.

The government has offered Dr15,000, equivalent to 8.5 per cent, in three instalments. But the education ministry says it cannot appoint any more teachers before new legislation to freeze public sector hiring for the three years.

In parliament on Wednesday Mr Costas Simitis, the prime minister, broke with the Socialist tradition of supporting trade union activity and strongly criticised militant leaders of OLME, the secondary teachers' union. He accused it of using talks with ministry officials on improving educational standards "simply as a means to press for extra pay".

The dispute is the latest in a series of confrontations by special interest groups seeking concessions on tax and wage changes introduced in this year's budget. The government needs a sharp reduction in the public deficit to keep alive Greece's chances of qualifying for the single European currency in the medium term.

Earlier this month it faced down a second attempt by farmers to win write-offs of debt owed to the state-owned Agricultural Bank and tax breaks for buying farm equipment by blockading the main north-south highway. Civil servants opposed to a new pay scale, and seamen, who object to having to pay income tax, have staged repeated strikes.

Three-pronged initiative aimed at bolstering financial infrastructure

Bonn signals markets reform

By Peter Norman in Bonn

The German government yesterday signalled a three-pronged initiative to expand the country's financial markets and channel more risk capital into investment and jobs.

Mr Theo Waigel, the finance minister, said his department would publish next month a preliminary draft of a long promised "third financial market promotion law" to strengthen Germany's financial infrastructure, aimed at taking effect at the beginning of 1998.

The legislation would include deregulation measures to encourage an equity culture, promote stock market listings, strengthen the competitive position of German bourses and improve investor protection.

It would widen the scope of investment funds so that savings could be channelled indirectly into companies.

It would also remove restrictions that have limited the scope of investment companies to take stakes in enterprises that do not want to be listed on stock exchanges in an attempt to strengthen the access to capital of technology-oriented and small and medium-sized companies.

Chancellor Helmut Kohl, CDU parliamentary leader Wolfgang Schaeuble (front), and Theo Waigel, finance minister (back), arrive at the Bundestag yesterday Reuter

Addressing the Bundestag in a debate on Germany's 4.66m unemployed and the government's annual economic report, the minister told MPs the planned reforms would give "an important push" to the labour market.

With an eye to next Monday's meeting between leaders of the government and the opposition Social Democratic party, he also urged the SPD to work with the government to implement its tax reform plans.

The finance ministry yesterday outlined 19 areas of action that it planned to put in the financial market promotion bill.

These included easier access to stock market listings for young companies and the recognition of prospectuses in foreign languages, less red tape, greater recognition of modern techniques such as book building and the issue of medium-term note programmes and easier rules for delisting.

In the investment fund sector it plans to permit mixed equity and property funds, index tracking funds and equity funds with a limited life. Fund managers will be given more scope to invest in derivatives, will be permitted to engage in securities repurchasing (repo) arrangements and be given greater flexibility to manage their liquid assets.

Disclosure of the ministry's plans came as the Munich-based Ifo economic research institute reported a strong jump in its west German business confidence indicator from 90.9 in December to 93.3 in January, its highest level since June 1995.

However, the Bundesbank also reported that German gross domestic product fell slightly by 0.2 per cent in the final 1996 quarter compared with the previous three months.

Appeal to widen search for assets stolen by Nazis

By Andrew Jack in Paris

A leading Jewish group has called on the Swiss authorities to broaden their search for assets expropriated during the Holocaust to include bank accounts held by former senior Nazi officials and those linked to them.

The Simon Wiesenthal Centre has written to Mr Arnold Koller, the Swiss president, and to the Swiss Bankers' Association asking them to identify bank accounts opened after 1938 by a number of leading individuals involved with the Nazi regime plus any securities owned by them.

It has made the same request to the governments of Spain, Portugal and Argentina, other locations for Nazi assets during and after the second world war.

The action is part of an attempt to broaden the search for resources appropriated and held by the Nazis to include money and property siphoned off personally by those involved in deportation and persecution.

The centre has drawn up an initial list of 334 names which it describes as including "leaders of the Nazi party, the SS, the industrialists who carried out the slave labour programme, the bankers who financed Hitler, the concentration camp elite, the men and women who plundered Europe's priceless art treasures", and a number of wives, mistresses and pseudonyms. Rabbi Marvin Hier, dean of the Wiesenthal Centre, cited a 1945 US army intelligence document highlighting considerable sums transferred to individuals for their personal benefit or to the Nazi movement after the defeat of Germany.

"During the cold war, it was in the interests of the allies to use the Nazis, not to make the existence of their assets public," he said, adding that a further list of names was being prepared.

The latest move comes as a number of countries have begun putting together commissions to examine the question of assets expropriated from Jewish and other victims of Nazi persecution.

The French government this month set up a commission to begin examining assets expropriated, the legal questions concerning their current ownership and the possibility of handing them to victims of the Holocaust or their families.

NEWS: THE AMERICAS

Brazil court judgment may hit deficit cut

President Cardoso: his government 'infringed constitutional rights of the 11 civil servants'

By Geoff Dyer in São Paulo

Brazil's plans to cut its fiscal deficit were thrown into confusion yesterday by a decision from the country's highest court which could leave the government facing a bill of over $25bn.

The Supreme Federal Tribunal judged in favour of an action taken by 11 civil servants who claimed they should receive a 29 per cent pay increase which was awarded to military officers in 1993.

The finance ministry said it did not yet know what the cost of the court's judgment would be, but economists said that the government could have to pay an extra $5bn a year plus $20bn in backdated pay.

President Fernando Henrique Cardoso was reported to have commented after the judgment: "It's a shame that they did not think of Brazil."

> 'It's a shame they did not think of Brazil' - President Cardoso after the Supreme Tribunal's verdict

The Supreme Tribunal ruled that the government had infringed the constitutional rights of the 11 civil servants by only awarding the pay increase to the military, thus opening the way for 540,000 federal civil servants to make a similar claim.

However, the impact of the judgment was not immediately clear.

Only the 11 civil servants who took the legal action will initially benefit and the deadline for a collective law suit has already expired.

In theory the other civil servants will have to make individual claims, which could take a number years to go through the legal system.

The president's spokesman, Mr Sérgio Amaral said: "The government will not put at risk the stability of the economy and will need to take all the necessary measures." A 10 per cent increase in civil service salaries, which the government had been expected to award this year, is now likely to be shelved.

The government said that it was now even more important that Congress pass constitutional reforms to the social security system and public sector administration.

The judgment accompanies growing concern about Brazil's fiscal deficit. The government is expected to announce today an operational budget deficit for 1996 of 4.5 per cent of GDP, well above the 2.5 per cent target at the start of the year, and on top of a 5 per cent deficit in 1995.

Earlier this week Mr Gustavo Franco, the director of international affairs at the central bank, warned that the government's economic reforms, which have brought inflation under control, could be jeopardised if action was not taken to reduce the fiscal burden.

Caracas offers chance to share in oil industry

By Raymond Colitt in Caracas

"You too can be part of the opening of the oil industry," read the advertisements in Venezuela's newspapers for next week's issue of "petrobonds" by state-petroleum company PDVSA.

The bonds are the first attempt to gain investor participation by the general public in the oil industry, while helping to finance PDVSA's aggressive plan to nearly double its production by the year 2005.

"These funds will open the possibility for all Venezuelans for the first time in history to acquire a stake in the petroleum industry," said Mr Luis Giusti, president of PDVSA.

According to company officials, PDVSA next Thursday will be "testing" the country's relatively underdeveloped capital market with Bolivars 30bn ($63.2m) of fixed yield paper.

"We want to kick off with a secure investment option that is attractive to ordinary investors," says Mr Juan Musso, one of the architects of the project at PDVSA.

However, the the hope is that as the market matures, investors will be able to acquire shares in specific projects in the petroleum industry.

As much as 10 per cent of each of the oil development contracts to be signed in May between PDVSA and private oil companies have been earmarked for the citizen participation programme.

Eventually, privately-run investment funds are planned to manage the petroleum bonds and shares. The funds, it is hoped, will boost internal savings rates and strengthen the domestic capital market.

"The petroleum investment funds would provide an enormous impulse for our emerging securities market," Mr Alejandro Salcedo, president of the Caracas stock exchange, said.

Some analysts suggest these moves are preparing the ground for eventual partial privatisation of PDVSA. Legislation before Congress seeks to authorise Pequiven, PDVSA's petrochemicals subsidiary, to make a share offering.

Within a decade, PDVSA hopes to raise as much as $5bn on the domestic markets.

According to Mr Jorge Serrano, head of the country's federation of industry and commerce, the participation of domestic and foreign private capital will free much-needed state resources.

Also, it will put an end to "a dependency [on the government], which has not taken us along the path of prosperity," he declared.

Though the "petrobonds" offer a competitive, market-pegged interest rate, which is adjusted quarterly, the success of their placement next week is still uncertain. Anticipated inflation rates of 30-40 per cent for this year far exceed current interest rates.

Yet Mr José Juan Gómes, a Caracas economist, says they offer "an attractive alternative to investors who are not ready for the equity market, which offers higher returns but also higher risk".

In an attempt to sweeten the deal and ensure high participation, PDVSA is also giving investors an option to sell the bonds back before they mature at 100 per cent of their nominal value.

Small retail investors will also be given preference over institutional investors during the first week of the offer.

"We want these shares to reach Venezuelans like the national lottery does," says Mr Juan Musso.

New unit to identify and mount public campaigns against corporations that undermine workers' rights

US labour to target anti-union companies

By Gerard Baker in Washington

Organised labour in the US will step up its efforts to target corporations, including multinationals with operations in the US, that are considered anti-union, leaders of the main national labour organisation said yesterday.

At its winter meeting in Los Angeles, the policy-making executive council of the American Federation of Labor and Congress of Industrial Organisations (AFL-CIO) agreed to establish a new unit to identify and mount public campaigns against companies that undermine workers' rights.

The new department of corporate affairs would campaign to distinguish in the public eye between companies with good employment practices and those with poorer records.

"We basically want to see our employers succeed in whatever they do in the private sector or the public sector," said Mr Ron Blackwell, the head of the new department. "But we want to see them succeed without benefit just to the owners and the chief executives. We want the employees to share in that prosperity."

The move is part of a renewed effort by the AFL-CIO to arrest the long term decline in union membership in the US. The proportion of the labour force in trade unions fell from 35 per cent in the 1950s to a new low of 14 per cent last year.

> **Al Gore, US vice president, has promised tough new action against anti-union employers**

This week's meeting of the executive council, which concludes today, has approved a range of measures in an attempt to reverse that trend, including new membership recruitment drives, a $60m advertising campaign and efforts to reach out to more women workers. The efforts have been intensified in the last year under the presidency of Mr John Sweeney, who has pioneered a modernisation campaign and a larger role in political campaigning.

This drive culminated in an unprecedented advertising campaign by unions against Republican candidates in last year's congressional elections. The campaign provoked the ire of Republicans who threatened in response legislation to curb use of union funds for political advertising purposes.

On Tuesday the organisation received strong support from Mr Al Gore, the US vice president, who promised tough new action by the US administration against anti-union corporations.

Mr Gore told the executive that the administration would change its guidelines on the awarding of government contracts to ensure fair treatment for unions.

The way companies treat unions would weigh heavily in decisions by the administration to award them contracts, he said.

AMERICAN NEWS DIGEST

Mexico moves on forex policy

Mexico's central bank, buoyed by its increasing reserves, has announced two important changes to its exchange rate policy. Throughout 1996 it refrained from direct intervention in the foreign exchange markets, but the bank announced that in the event of the currency falling by more than 2 per cent in any one day, it would now sell off $200m of reserves the succeeding day. "This will provide the market with liquidity that will prove useful in times of exchange rate nervousness," said the bank.

"The central bank is showing that they do not want big market moves, but that they will limit the amount of money they will throw at the market," said Mr David Malpass, chief international economist at Bear, Stearns in New York.

The bank also announced it would potentially double the size of auctions of options to buy pesos to $600m a month. The auction mechanism has helped raise the size of the country's reserves to $8.9bn, excluding money owed to the International Monetary Fund and other organisations. Reserves at the end of July 1996 were just $2.57bn. "This is a signal that the amount of money flowing into Mexico is giving the central bank a real headache," said Mr Jorge Mariscal of Goldman Sachs in New York.

Daniel Dombey, Mexico City

US housing starts increase

US housing starts rose by 2 per cent in January from a month earlier, following a sharp fall in December, the Commerce Department reported yesterday. Construction of new homes last month was at a seasonally adjusted annual rate of 1.35m, compared with 1.32m in December.

The rapid pace of starts recorded last summer and autumn eased around the turn of the year. The average annual rate of over 1.46m between April and September last year has dropped to an average for the last three months of 1.38m.

Gerard Baker, Washington

Thalidomide use sought

Celgene Corporation, a US biotechnology company, has filed an application with the US Food & Drug Administration to use the drug thalidomide in the treatment of a leprosy-related condition. Thirty-five years ago, thalidomide was taken off the market after its use as a sedative was found to cause severe birth defects when taken by pregnant women in the first three months.

But recent clinical trials have shown that thalidomide may be useful in treating a number of conditions, including Aids wasting and several auto-immune disorders. The new application for thalidomide, under the brand name Synovir, is for treatment of erythema nodosum leprosum, an inflammatory condition occurring in 30-50 per cent of leprosy patients.

Thalidomide is already used outside the US for this purpose.

Tracy Corrigan, New York

NY jury finds banker guilty

A New York jury has declared Mr Orlando Castro Llanes, a Cuban-born banker, guilty of defrauding Venezuelan depositors of millions of dollars through a Puerto Rican subsidiary of Venezuela's Banco Progreso. Mr Castro, 71, faces a prison term of up to four years. His son, Mr Orlando Castro Castro, and grandson, Mr Jorge Castro Barredo, were also found guilty of fraud and grand larceny and face up to 25 and 40 years in prison, respectively.

Raymond Colitt, Caracas

Leader-to-be in pledge to ensure continuity and hold colony on even keel

Tung to keep top HK officials

By John Ridding and Louise Lucas in Hong Kong

Mr Tung Chee-hwa, Hong Kong's future leader, will retain all the top government policy officials in his administration after the colony returns to Chinese sovereignty on July 1, he said yesterday.

"The appointments ensure a very large measure of continuity in the leadership of the civil service which will help to maintain the stability of Hong Kong," Mr Tung added.

He was speaking shortly after arriving back from Beijing, where his choices had been approved by China's central government.

By emphasising continuity and the speed of approval, Mr Tung appeared to be signalling that the arrangements for Hong Kong's transition should not be disrupted by the death of Deng Xiaoping, China's paramount leader, and the architect of the "one country, two systems" formula which underpins Hong Kong's return to China.

The speed of the decision reflected Beijing's confidence in himself and in Hong Kong's ability to run its own affairs, Mr Tung declared.

The announcement is expected to bolster the confidence which has been shaken over recent weeks by Beijing's stance on democratic reforms and civil liberties.

Continuity in the civil service is regarded as particularly important, given ruptures to other institutions during the transition process. The territory's elected legislature, for instance, is set to be scrapped in July and replaced by a Beijing-backed body.

Mr Chris Patten, governor of Hong Kong, welcomed what he described as reassuring news. "I am pleased Mr Tung will be served by an excellent team of senior officials," he said.

Mr Tung has already announced he will retain Mrs Anson Chan, head of the civil service, so attention focused on his decision to keep Mr Donald Tsang as financial secretary.

Mr Tsang, a firm defender of Hong Kong's autonomy and its free market system, has clashed with Mr Tung on a number of issues, including Beijing's plan to water down the territory's Bill of Rights.

But pro-democracy politicians expressed concern about the appointment of a new attorney-general. Ms Elsie Leung, who will replace Mr Jeremy Matthews (who does not meet the nationality requirements of the new administration and is retiring), was described as pro-China and politically conservative. "My worry is for the Bill of Rights because she will be the principal legal policy adviser for the government," said Mr James To, a legislator from the Democratic party, the largest group in the existing Legislative Council.

Scepticism was also evident among some pro-democracy activists about the duration of Mr Tung's team and whether officials might be replaced shortly after the handover.

Mr Tung said he hoped he would not be making changes, and rejected concerns over the appointment of Ms Leung.

"The fact that she has a lot of feelings for China is perfectly all right," he said. "I am confident she will make sure the rule of law remains strong and gets stronger."

The territory's future leader also dismissed fears that Deng's demise would undermine prospects for a stable transition, a position that was backed by most business figures and the Hong Kong government.

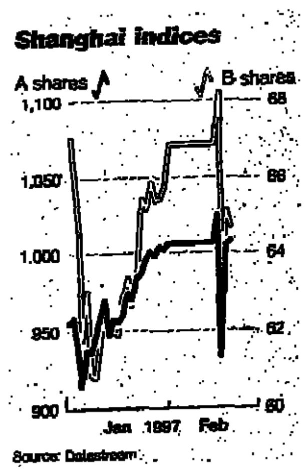
"I don't think anyone can change the policy towards Hong Kong that Deng has set," said Mr Allen Lee, chairman of the pro-business Liberal party. Members of the Democratic party, however, warned that Deng's death would add to anxieties ahead of the handover.

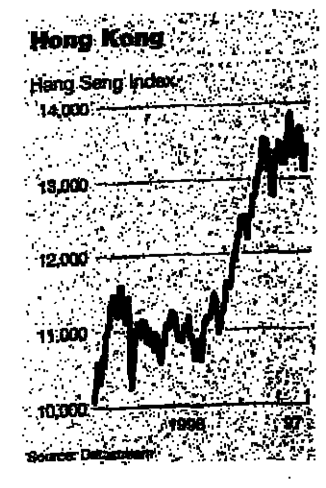
Mr Martin Lee, leader of the party, said China had already shifted from Deng's policy of allowing Hong Kong a high degree of autonomy. "China simply wants to control Hong Kong," he declared. "I can see the danger that when the Chinese leadership feels insecure about their own present position, they may adopt an even harder line. I hope this won't be the case."

Editorial Comment, Page 11

Tung Chee-hwa (top): Donald Tsang staying at finance, Mrs Anson Chan at civil service

MARKET REACTION TO DENG'S DEATH





Volatile Chinese markets in sharp rebound

By James Harding in Shanghai

China's stock markets ended a volatile day's trading practically unchanged, sending Beijing the message it wanted that domestic and foreign investors had confidence in China's post-Deng leadership.

The Shanghai and Shenzhen stock markets plummeted when trade opened yesterday morning in reaction to the news Comrade Deng Xiaoping had passed away. Within minutes share prices were rebounding, lifted by a combination of bargain hunters and speculation that government companies were buying stock to restore stability.

After tumbling the full daily trading limit of 10 per cent, the index of Shanghai's A shares recovered to end the day up 0.28 per cent at 1007.73 points and B shares rallied to close down 0.7 per cent at 64.67 points.

In Shenzhen, the B share index closed up 1.26 per cent at 143.53 points, while the A share index lost 2.11 per cent to 350.59 points.

A shares are denominated in Chinese yuan and restricted to mainland Chinese buyers, while B shares are reserved in theory for foreign investors and denominated in foreign currency. Traders, particularly in the domestic A share market, reported a heavy incidence of government-backed buying.

By the afternoon foreign brokerages were "taking a lot of orders from overseas clients, showing they had every confidence in China after Deng," one said.

One Shanghai broker suggested Deng would be "pleased as punch" with the way the markets had taken his passing.

"We all want to be missed but we also want to see that what we have built can stand the test of time."

Deng's economic reforms paved the way for the reopening of China's long dormant stock markets in 1990.

Traders in HK cash in on end to rumours

By John Ridding

Hong Kong's stock market rose sharply yesterday as investors welcomed the removal of a lingering uncertainty following the death of Deng Xiaoping, China's paramount leader.

The Hang Seng index climbed by 305.1 points, or 2.33 per cent, to close at 13,411.33.

Bonds remained largely steady, although the yield on the territory's 10-year exchange fund slipped from 6.88 per cent to 6.80 per cent, while the Hong Kong dollar strengthened against the US currency, trading at about HK$7.7385 compared with about HK$7.7495 when Deng's death was announced early yesterday morning.

"The fact of Deng's death was less worrying than the rumours," said Ms Pauline Loong, head of the China department at Jardine Fleming in Hong Kong. Last week the Hong Kong stock market lost more than 4 per cent on reports Deng's health was fading.

Investment analysts predicted further volatility, but they said Deng's demise had removed a long-standing burden from the market and that the authorities in Beijing appeared to have the situation well in hand.

Of greater significance, say some analysts, was the reaction of the Hong Kong dollar. Some currency traders said the Hong Kong Monetary Authority, the territory's de facto central bank, had been active in the market, while others claimed Chinese investment funds had been buying heavily.

The HKMA declined to comment on its activities yesterday. But officials have made clear the authority will intervene if necessary to support the Hong Kong dollar, which is pegged to the US dollar at a rate of HK$7.8. The HKMA has foreign exchange reserves of more than US$64bn, while the People's Bank of China has also pledged its support for the territory's currency.

China will honour Deng with whistles

By Tony Walker in Beijing

China will honour Deng Xiaoping, its paramount leader, with a gathering of 10,000 mourners in Beijing's Great Hall of the People next Tuesday. But Deng's family has asked that his funeral be simple, saying he did not wish to lie in state. His body will be cremated and his ashes scattered at sea.

The nation will hold six days of mourning, culminating in Tuesday's gathering. Whistles on trains, warships, and factories will be blown for three minutes on that day.

An official obituary called on people to rally behind the ruling Communist party and Mr Jiang Zemin, China's leader. "We must uphold and safeguard party unity and unification, unite more conscientiously around the party central committee with Comrade Jiang Zemin at the core," the obituary declared.

Deng's wish for an austere funeral is in keeping with his rejection of a personality cult. He was determined not to follow the example of Mao Zedong, whose remains are on permanent display in a vast mausoleum on Beijing's central square.

"Comrade Deng always believed in simple and frugal funerals, and it is in keeping with his ideas that no farewell ceremony be held," the letter from his family said. "No ashes should be preserved. It is the wish of Comrade Deng that his ashes be cast into the sea."

Deng died in Beijing on Wednesday evening from Parkinson's disease and respiratory failure. He was 92 and had been incapacitated for several years.

China was calm after state media announced his death with the long obituary honouring his accomplishments. Beijing and other cities went about their business normally. Few signs of public mourning were seen. A red flag flew at half mast in Tiananmen Square; in the diplomatic quarter, embassies lowered their flags.

The funeral committee, headed by Mr Jiang, said next Tuesday's memorial meeting would give the "whole party, military and people a chance to express their grief".

Mr Chang Ching-yu, chairman of Taiwan's mainland affairs council, which determines strategy towards China, yesterday said policy towards Beijing would not change following the death of Deng Xiaoping, reports Laura Tyson in Taipei. Beijing regards Taiwan as a renegade province, and relations between the two have been cool since elections last March when China staged military exercises off the island to intimidate Taiwanese against voting for independence.

Mr Shih Hwei-you, vice-chairman of the council, said China already had policies for the post-Deng period. "It will not change those policies." Taiwan's efforts in the past year to raise its international profile have aroused angry protests from Beijing.

Yesterday the Taiwan dollar opened lower but recovered, as did share prices, which closed higher amid heavy trading as the government assured investors it would act to stabilise markets if necessary.

Business as usual in booming China

When rumours started circulating three years ago that Deng Xiaoping was close to death, the foreign business community in China got the jitters.

"There was a real fear when he died there would be great turmoil; expats wondered how we would get out of the country," recalls Mr Chris Merry, partner at accountants Coopers & Lybrand in Shanghai.

Yesterday, Mr Merry, like fellow China investors in Hong Kong, Shanghai and Beijing, saw "no reason for Mr Deng's death to upset business confidence in China."

That view was shared in Hong Kong, which reverts to Chinese sovereignty in July. "It's life as usual and business as usual," said Mr Robert Ng, chairman of Sino Land, one of the territory's most aggressive property companies. Sino Land, which has investments of over HK$100bn (US$13bn) in Hong Kong and around HK$2bn in China, spent a further HK$6bn on an acquisition spree over the last three months. "And we'll carry on investing even more in Hong Kong and China," said Mr Ng.

Hong Kong is China's biggest foreign investor, and a number of the territory's biggest names have business relationships that pre-date the communist takeover of 1949.

Jardine Matheson, the British controlled conglomerate which claims the longest relationship at more than 160 years – albeit one which has had thorny moments – reckons the process of reform unrolled by Mr Deng is irreversible, and that the transition he charted for Hong Kong will go ahead according to his blueprint.

The group boasts some 70 joint ventures in China, spanning fast food to financial services, and conducts a total trade (which includes China sourcing) with the mainland of around US$1bn.

In Shanghai, most businesspeople were unruffled by Mr Deng's long-awaited passing, if not positively upbeat about China's prospects in the post-Deng period.

Mr John Holden, president of the American Chamber of Commerce in Beijing and general manager of US agri-business Cargill in China said:

"The economic reforms will if anything pick up in pace, as the success they have had in reining in inflation and stabilising the economy lends logic to an increased velocity in the reform process."

Another reason for the confidence is political: Mr Terumata Ihara, general manager of Mitsubishi Corporation in Shanghai, says President Jiang Zemin's strong leadership will help to underpin a peaceful transformation.

However, behind the rosy forecasts there were notes of caution.

Many companies in China are seeking relaxation of burdensome regulations and privately concede that realignment in the wake of Mr Deng's death could delay market liberalisation.

Mr Peter Batey, chairman of consultants Batey Burn, said "some of the financial services reforms could be put on hold," referring to proposals to admit joint venture mutual funds in China.

James Harding

Army kingbreakers in the wings

Chinese military police in Red Square: not expected to step into political fray Reuter

As a veteran of the Long March and field commander in the war against Japan and China's civil war, Deng Xiaoping could always count on the support of the powerful military which saw him as "one of us".

Mr Jiang Zemin, described officially as the "core" of the leadership, but with a background as a technocrat and administrator, has no such rapport though he has been working hard at his army connections.

The military is believed to be generally supportive of Mr Jiang. A western analyst said the army's importance would lie less in its "kingmaking" role than in its ability to be a "kingbreaker" should the new collective leadership stumble.

Inevitably, the position of senior officers of the Central Military Commission (CMC), the paramount military organisation, will be cast in sharper relief.

Leading military figures who are likely to be prominent in this new period include General Chi Haotian, the defence minister, who is close to Mr Jiang, and General Zhang Wannian, both of whom were appointed CMC vice-chairmen in 1995.

Gen Zhang, 68, is tipped for promotion to the standing committee of the ruling politburo at the Communist party congress later this year. He would replace General Liu Huaqing, the veteran naval commander who has served as military representative on the standing committee since 1992.

Other prominent military figures who will be important in the post-Deng period include the veteran Zhang Zhen, 82, who with Gen Liu serves as joint vice-chairman of the CMC under Mr Jiang. These Long March veterans have been kept from retirement precisely because it is felt that China will need a steadying hand in the coming days.

Other military figures waiting in the wings who are in a position to assume greater prominence include Lieutenant-General Wang Ruilin, 68, who worked as Deng's military secretary after Deng re-emerged in 1977, following the death of Mao Zedong, China's "Great Helmsman", the year before.

Gen Wang was appointed to the CMC in 1995, but Deng's demise robs him of his patron.

The military appears likely to exert greater pressure on the government to provide additional funds for arms purchases.

The defence forces feel they have been the poor relation in China's modernisation drive.

Tony Walker

Prosecutors to question President Kim's son today

Inquiry finds no evidence of pressure on banks to lend to collapsed steel giant Hanbo, **John Burton** reports from Seoul

The son of South Korea's President Kim Young-sam is expected to be questioned today by prosecutors on whether he played a key role in arranging loans for the Hanbo steel group, which went bankrupt last month in the nation's biggest corporate collapse.

Mr Kim Hyun-chul will appear before prosecutors to support a libel suit he has filed against six opposition politicians who allege his involvement in the bribes-for-loans scandal. Ten top politicians and businessmen have already been indicted for allegedly accepting payments from Hanbo.

Most Koreans believe government prosecutors are covering up participation by the president's inner circle in the scandal, according to an opinion poll released yesterday.

An inquiry by Korea's bank "watchdog" yesterday found no evidence of political pressure on banks to lend to Hanbo, despite allegations that have shaken the government.

Instead, the Office of Bank Supervision criticised leading banks for lending nearly Won3,000bn ($3.44bn) to Hanbo without adequate credit analysis and feasibility studies of its project to build one of the world's largest steel mills.

The OBS warned it might take disciplinary action against executives from Hanbo's biggest creditor banks, while Moody's Investor Service, the US credit rating agency, downgraded the long-term ratings of three of the banks involved.

Hanbo went bankrupt last month under the weight of Won5,000bn in loans it had acquired from 61 banks and other financial institutions for the steel project. OBS accused the banks, which include Korea First, Cho Hung, Korea Exchange and state-run Korea Development Bank, of a "superficial scrutiny of the Hanbo project" because of an alleged lack of technical expertise to assess it.

Little consideration had been given to Hanbo's financial state and concerns that its ambition to become Korea's second biggest steelmaker was unrealistic, OBS added.

The Hanbo project "was not carried out under a comprehensive master plan from the start", with numerous changes to its planning that more than doubled its initial cost estimate to Won5,700bn, said Mr Choi Yeon-jong, a senior OBS official.

An official from Hanbo's main creditor said the banks had to bear much of the blame for loans to the steelmaker. But, he added, the banks believed alleged participation of the state industrial bank in financing the steel project indicated Hanbo had enjoyed government support.

Moody's downgraded the long-term deposit and senior debt rating of Korea First to Baa2 from Baa1, while those for Cho Hung and Korea Exchange were cut to Baa1 from A3.

The financial strength ratings of Korea First and Korea Exchange fell to E+ from D, while that for Cho Hung dropped to D from D+. All the banks retained their short-term ratings of Prime-2.

South Korea yesterday said it would contribute $6m to the United Nations for emergency food aid to North Korea in a conciliatory gesture to ease tensions caused by the recent defection of a top North Korean official, John Burton writes.

The announcement came amid suggestions by officials in Seoul that the defector, Mr Hwang Jang-yop, will soon leave his temporary sanctuary at the South Korean embassy in Beijing and travel to Seoul via a third country. South Korean and Chinese officials have been negotiating Mr Hwang's safe passage after he defected in Beijing last week. Seoul is expected to promise Beijing not to exploit Mr Hwang's defection to aggravate Pyongyang and reduce activities by its intelligence agents in China.

North Korea has apparently dropped its demand that Mr Hwang be returned to Pyongyang.

The North's willingness to resolve quickly the diplomatic row over Mr Hwang's fate reflects its need to acquire food aid for its starving population.

The World Food Programme, a UN agency, last week appealed for almost $42m to feed North Koreans. The US has agreed to donate $10m.

Flexibility and agility

A new specialty chemical company is born.

Additives

Consumer Care Chemicals

Performance Polymers

Pigments

Textile Dyes

The industry that creates colour and texture for world manufacturing has a new leader. Ciba Specialty Chemicals has transformed itself to bring customers ever brighter solutions in additives, consumer care chemicals, performance polymers, pigments and textile dyes.
In every case our products deliver the highest performance in the most extreme conditions. Our new company is already working in partnership with household names in electronics, fashion and automotive industries.
We have 58 manufacturing sites in 29 countries and more than 20,000 people worldwide.
We also record sales in 117 countries with a strongly established presence in emerging economies in Asia. Ciba Specialty Chemicals is flexible, quick to react and ready to take Ciba's track record of innovation to new heights. By specialising in five key areas of expertise, we will continue adding greater value to every product we become involved with.

Ciba

Value beyond chemistry

Ciba Specialty Chemicals

Israeli bank urges action on deficit

By Judy Dempsey in Jerusalem

Israel's cabinet will today try to agree measures aimed at curbing the budget deficit after an unexpectedly high shortfall of Shk1.3bn ($394m) last month and figures this month already "looking not very good," according to Bank of Israel officials.

The central bank said yesterday it wanted the government to introduce monthly income/expenditure projections so as to make corrections on time. It also said the government should make expenditure cuts rather than raise taxes if it was likely to exceed this year's Shk9.7bn budget deficit target. The government is planning to cut the deficit to 2.8 per cent of gross domestic product. Last year it was 4.7 per cent.

However, Bank Hapoalim, the country's largest bank, warned in its latest monthly economics report that any further rise in taxes or spending cuts aimed at adhering to the targeted deficit "could aggravate the slowdown already apparent in economic activity".

Hapoalim has forecast that GDP will grow 3.7 per cent this year compared with 4.4 per cent in 1996 and that the rate of growth in private consumption will fall from 6 per cent in 1996 to 5 per cent this year. The rate of growth in investment in fixed assets will drop sharply, from 7.3 per cent last year to 2 per cent this year, leaving the finance ministry little room to manoeuvre if it does not want GDP growth to fall further.

If February's budget deficit figures match January's, they will damp down the business community's hopes of a substantial interest rate cut. It had reckoned that last month's 0.4 per cent rise in the consumer price index – bringing the year-on-year inflation rate down to 10.1 per cent – would be enough to justify a generous rate cut. The key lending rate is 14.2 per cent.

But the Bank of Israel, often at odds with the finance ministry over its tight monetary policy, has said it too has little room to manoeuvre. Yesterday it insisted that any substantial interest rate cut depended on the continuing downward trend in the inflation rate and the government's commitment to pursuing a tight fiscal policy.

Although the bank's policy has infuriated the export sector of the business community, its independence has not been questioned.

However, earlier this week a group of opposition Labour and governing Likud parliamentary deputies succeeded in the first preliminary legislative steps to weaken the bank's powers. The bank said it would resist any attempts to undermine its independence, accusing the supporters of the motion of trying to undo the system's checks and balances.

Donald Johnston: "The main frustration is the US Congress. I worry about the isolationist thinking there."

Drive to cut costs worries new head of the OECD

Graham Bowley meets the man overseeing reform of the world's most influential think tank

Just under nine months after taking over as head of the world's most influential think tank, Mr Donald Johnston, secretary-general of the Organisation for Economic Co-operation and Development, is having to cope with a possible 10 per cent cut in his organisation's budget.

The trigger for the budget cuts has been the decision by the US, the largest donor, to reduce its contributions.

"The main frustration is the US Congress," says Mr Johnston. "I worry about the isolationist thinking there. It has driving the budget reductions," he said.

But the cuts have been the catalyst for radical reform of the OECD towards what Mr Johnston describes as a modern, less centralised and less regulated management structure.

It has also led to proposals for job cuts, a reduction in posts, and a pay freeze for the 2,000 staff.

At the same time, new countries – many from the former Soviet bloc – are clamouring to join the Paris-based organisation. Russia has applied to join, as have Slovakia, Estonia, and Argentina.

Hong Kong has said it wishes to have stronger ties. This is raising important questions about what the OECD, created 30 years ago as an economic bulwark against communism, is actually for.

"This is a major transition period for us, there's no question about it," said Mr Johnston, in an interview yesterday. "We are living within serious budget constraints without an approved budget. But that being said we are accomplishing a great deal in terms of internal organisation."

Although this year's budget has still to be agreed, Mr Johnston is working on the assumption that it will be cut by about 3 per cent in real terms – and by 10 per cent in total over the next three years.

Mr Johnston ascribes some of the OECD's funding problems to the lack of obvious constituencies for its work within member governments. Unlike other international organisations – the International Monetary Fund, for example, has strong links with countries' finance ministries – the OECD lacks clear ties with any one government department.

"You find areas of support [for the OECD] but there is no complete corporate view. I want to develop a corporate view among our members as well as within the organisation."

Mr Johnston's present workload has not been made easier by internal wranglings between some of the organisation's member countries.

Two of the four posts of deputy secretary-general remain vacant after France and Germany objected to Mr Johnston's proposed list of candidates. A third post is earmarked for Japan, but has still to be filled. This leaves Mr Johnston with just one deputy to rely upon at perhaps the time of most radical change in the organisation's history.

But despite these internal problems, Mr Johnston retains a clear view of what the OECD's message should be – the promotion of free trade and investment. He enthuses about the process of globalisation, which he sees as the by-product of these twin forces.

"This is why I am so bullish about the future of the planet," he said. "Globalisation is extending economic interdependence, and this will bring peace and stability."

Globalisation, he believes, "will ultimately be the answer to the Middle East" problem. He draws parallels with Europe's integration since the second world war: "It is really miraculous what has happened here." Monetary union, he says, may be taking this process one step further.

Globalisation is also what is happening to the OECD – its membership has expanded by 5 to 29 member countries since 1994, and many more nations are knocking on the door.

Some fear this expansion is making decision making more difficult within the organisation and is diluting what the OECD stands for – member countries are required to be economically and political open, as well as democratic.

World Bank defends $570m restructure plan

By Patti Waldmeir in Washington and Robert Chote in London

The World Bank yesterday defended a controversial plan to restructure its organisation at a cost of up to $570m over the next two years.

A World Bank spokesman yesterday anticipated criticism that the plan could prove just another costly restructuring of an organisation which has undergone repeated reorganisations in recent years.

"This is not just some simple growth proposal. It is a major reallocation of resources," the spokesman said, adding: "The vision is of fundamental renewal of the bank, it is not about tinkering at the edges".

The "Strategic Compact" for restructuring represented the long-awaited vision of Mr James Wolfensohn, the bank's president, for the future of the organisation. "This is the most important document of his presidency," the spokesman added. "It's as clear a strategy as you're going to get from us."

The plan, which has not yet been agreed by the bank's leading shareholders, the big industrial countries, would cost $420m over the next two years, as well as up to $150m more in costs for redundancy. Of that total, $170m would be generated from internal budgetary savings; the rest would have to come from a budget increase.

Restructuring costs alone, without paying for redundancies of an estimated 500-700 people, would boost the budget 11 per cent in each of the next two years.

The bank defends the extra cost by drawing parallels with private-sector companies, where extra investment is initially required to finance later savings.

Mr Wolfensohn sought advice from 16 top international CEO's, including Mr Percy Barnevik of ABB and Jurgen Schrempp of Daimler-Benz, before drawing up his restructuring plan.

"This is a real exercise to make the bank the best again," the spokesman said, adding that where Daimler-Benz had adopted "shareholder value" as its driving principle, the bank would henceforth focus on "development effectiveness".

The spokesman acknowledged problems with earlier efforts aimed at trimming staff, adding also that it was not clear yet what net reduction in staff would result from the current plan which also involves new hiring.

"By the time you've done four of these (redundancy efforts), you have to step back and say: 'There's something wrong here'."

Deflecting expected criticisms that the new restructuring would be no different from previous ones, the bank said: "This one will work because it's different".

The bank spokesman stressed that internal reorganisation would not be the only thrust of the plan: the proportion of bank staff in the "front line" rather than back office jobs would rise, but at the same time the bank would be shifting its development focus.

This would give increased emphasis to social aspects of development and to the changing relationship between the public and private sectors.

Front-line operations had been disproportionately hurt during previous cost-cutting exercises, and this had to be rectified.

The spokesman rejected suggestions that the new plan would imperil hopes of securing money from the US Congress for the International Development Agency, the bank's soft-loan operation.

"The key to saving IDA is to make sure the bank is the best and seen to be the best," he declared.

INTERNATIONAL NEWS DIGEST

African hopes of Olympics hit

African hopes of hosting the continent's first Olympic Games suffered a blow yesterday when the International Olympic Committee expressed concern about the crime problem in Cape Town, the South African city bidding to hold the 2004 games. In a report on the 11 bidding cities released yesterday, the IOC's evaluation committee acknowledged that Cape Town had developed a detailed strategy to improve security but said it remained concerned about the serious crime in the city and in South Africa in general.

Cape Town has long been a favourite to host the 2004 games because the IOC is known to be keen to bring the games to Africa, and the only country capable of holding the event is South Africa. Among the other contenders, the report had generally favourable evaluations on Rome, Athens, Stockholm and Buenos Aires. These four cities, along with Cape Town, are expected to make the shortlist which the IOC will announce on March 7. The other six bidding cities are Istanbul, Lille, St Petersburg, Seville, St Juan and Rio de Janeiro. *Patrick Harverson*

Manuel charms investors

Mr Trevor Manuel, the South African finance minister, stepped up a pre-budget charm offensive yesterday, promising fiscal rectitude and further economic reforms.

Mr Manuel has abandoned the usual cloak of silence ahead of his budget speech to parliament on March 12. Instead, he and Mr Chris Stals, the Reserve Bank governor, have had a hectic week briefing local and international investors on the improving economic situation, including a sharply narrowing current account deficit.

Addressing the first domestic "roadshow" yesterday, Mr Manuel once again pledged his commitment to the "main plank" of the government's Growth, Employment and Redistribution (GEAR) strategy – grinding down the budget deficit. "The 4 per cent deficit for 1997/98 is immutable," he said, referring to the promise to cut the deficit from 5.1 per cent this year to 4 per cent in 1997/98 and 3 per cent by the end of the decade.

South African government bonds took heart from the deficit pledge, moving to their best levels in a year. But the rand remained nervous after stalling below the 4.4 level against the dollar last week. *Reuter, Johannesburg*

Saudi rebel warns of holy war

Mr Osama bin Laden, the exiled Saudi dissident and rebel leader, has threatened to wage an Islamic holy war against the US and its allies if Washington does not remove its troops from the Gulf region. From his headquarters in Afghanistan, he said the US was occupying and violating Islam's greatest and holiest lands and must be expelled. The bombings in Riyadh in 1995 and at a military housing complex in the eastern Saudi city of al-Khobar last June in which 24 Americans were killed were a warning.

"The bombings... were a clear indication for the crusading forces to correct this grave mistake and for them to depart before it is too late," he said. "People will not only hit the American military but also demand the expulsion of American civilians." *Reuter, London*

Israel in 'spying' protest

Israel's foreign minister yesterday called on the Egyptian government to release an Israeli businessman accused by Egypt of spying for Israel. Mr Mohammed Bassiouny, Egypt's ambassador to Israel, was summoned to the Israeli foreign office to receive a formal request for the release of Mr Azam Azam, arrested in Cairo with two Egyptian men last November.

Mr Azam was charged at Egypt's state security court on Monday, accused of spying and working against Egypt's national interest. Two Israeli women, who are currently outside Egypt, are also accused. "The man had nothing to do with any intelligence operation and of course the conclusion is he should be set free," an Israeli foreign ministry spokesman said in Jerusalem yesterday.

Mr Azam, 35, is technical manager with Tefron Egypt Textiles, one of a handful of Israeli companies operating in Egypt. Egypt criticised Israel for highlighting the affair when it could perhaps have been dealt with discreetly, thereby avoiding a trial. *Mark Huband, Cairo*

Doubts voiced on Ghana's budget

By Antony Goldman in Lagos

Ghana's plans to reintroduce value added tax, announced in the annual budget this week, caused concern among economists in Accra yesterday, as memories of the riots caused by tax protests two years ago were revived.

The budget also left doubts about some of the estimates and projections announced by Mr Kwame Peprah, the finance minister: "The figures seem a little optimistic when weighed against the economy's performance last year," said Mr Joe Abbey, head of the independent Centre for Policy Analysis in Accra. "The real question is, can the government achieve its fiscal targets? There are already arrears on payments from last year, and expenditure may be difficult to control."

Ghana's economy (%)

	1995	1996	1997
Inflation**	70.8	32.6	15*
GDP growth	4.5	5.2	5.5*

*estimates **December figures

Despite 15 years of economic reform, the economy remains heavily dependent on two traditional exports, gold and cocoa.

Mr Peprah predicted growth in gross domestic product of 5.5 per cent, a drop in inflation and a surplus on the budget and balance of payments.

Reaction to the budget is likely to be negative. "Unemployment is a real problem," said one supporter of the opposition, "but there is nothing here on what the government intends to do. Also, inflation is killing our living standards. How will they bring it down?"

Following his re-election in December, President Jerry Rawlings has made it clear he intends to pursue policies to foster macroeconomic stability. Ghana, throughout the 1980s a favourite of the World Bank because of its commitment to structural reform, is now anxious to promote conditions conducive to foreign investment.

S Africa expects Zaire talks soon

By Roger Matthews in Johannesburg

South African officials remained optimistic yesterday that talks to halt the civil war in Zaire would soon get under way in Cape Town, but would not speculate when the two sides might meet, or confirm who would attend.

President Nelson Mandela announced on Tuesday that representatives of the Zairean government and Mr Laurent Kabila, the rebel leader, had agreed to talks on a ceasefire which could lead to negotiations on democratic elections. It would be the warring parties' first meeting since fighting broke out in October.

However, Mr Kabila was said by a spokesman yesterday to be in eastern Zaire inspecting damage to the town of Bukavu, bombed on Monday by government aircraft. But an envoy had been sent to South Africa.

In Kinshasa, a defence ministry statement said the government would launch more air strikes against enemy positions in the rebel-held east and advised civilians to leave the war zone.

Mr Rusty Evans, a senior official in the South African foreign ministry, said a representative of President Mobutu Sese Seko had also arrived. But he could not confirm reports that both envoys had already separately met Mr Thabo Mbeki, South Africa's deputy president, who is heading the effort to bring the two sides together.

The US is also standing by to help, with Mr George Moose, assistant secretary of state for Africa, and Ms Susan Rice, a senior member of the National Security Council, having flown in.

Mr Leon Kengo wa Dona, the prime minister of Zaire, suggested meanwhile that his government might be willing to attend an international conference on the conflict. It has refused two earlier invitations. He said he was not in principle opposed to a summit in Nairobi, but it would have to be preceded by talks in Kinshasa.

costs worries the OECD

restructure plan

COMMENT & ANALYSIS

FINANCIAL TIMES

Number One Southwark Bridge, London SE1 9HL
Tel: +44 171-873 3000 Telex: 922186 Fax: +44 171-407 5700

Wednesday February 19 1997

The shadow of Mr Deng

Mr Deng Xiaoping, China's 92-year-old paramount leader, has been ailing and inactive for several years. He withdrew from public life in 1990, and was last seen in 1994. There is no way that he has been able to intervene in the running of the country since then. Yet the latest rumours of his imminent demise have caused the markets to tumble and the top officials to hurry back to Beijing.

This old revolutionary clearly still matters. But it is more for what he represents, than for what he can do. The preparations for the transition have long been in place. The leadership has virtually completed the arrangements for the party congress in October. President Jiang Zemin is the anointed successor, with Mr Li Peng as his premier. So why the drama?

China may have been through revolution and civil war, but some things scarcely seem to change. As long as the emperor still lives, the mandate of heaven rests with him. Moreover, Mr Deng has the charisma which the new generation of the Chinese leadership so clearly lacks. You know what he believes in: "White cat, black cat – the colour doesn't matter as long as it catches mice." His revolutionary credentials gave him powerful influence over the military, and the popular credibility to reverse the worst excesses of Mao's rule.

His successors are apparatchiks, men of the machine, not heroes of the revolution. Mr Jiang's thinking is unclear, as ambiguous as the way he talks. He does not appear to have the vision to make him an eloquent Chinese leader. As for Mr Li, he is a classic product of the school of central planning, a Soviet-educated engineer. No wonder the markets are nervous.

China is still a great unknown, at least as far as the exercise of power is concerned. That creates uncertainty. But there are reasonable doubts and unreasonable doubts about how the country will develop. Reasonable doubts suggest that Mr Deng's demise may slow down the pace of reform. Indeed, his absence from the scene has already done so. But there are still powerful reformers, grouped around Mr Qiao Shi, who are determined to press forward with the process.

Unreasonable doubts would see China slide backwards, halting reform, and declining into warlordism and chaos. This seems most unlikely. Whatever the inclinations of the leadership, there is a momentum to economic reform in China which seems unstoppable. Powerful institutions like the military now have a strong stake in that process. Ordinary people have seen real economic benefits, if not democratic freedoms, in their everyday lives. That is the legacy of Deng Xiaoping. For their own survival, his successors must also learn to ignore the colour of the cat.

Genetic tests

When asked about mortality rates, an Andorran actuary said his country had "about one death per person, on average". More useful predictions of the future are promised by genetic tests. Susceptibility to common causes of death, such as heart disease and cancer, can now be assessed. But insurers, as well as health-conscious individuals, want access to this information.

Insurance was established to pool unpredictable risks, such as losses from acts of God. Most life policies currently take account only of age, sex and smoking habits. But as genetic tests become more sophisticated, the risks of dying young or needing expensive medical treatment will increasingly be quantifiable.

Currently, just 4 per cent of UK applicants are charged higher premiums and 1 per cent refused life cover because of their medical records or family history. But actuaries expect that in 10-20 years full-scale tests will be able to predict a threefold difference in mortality between people with good and bad genes.

Pessimists argue that the effect on the life market will be the same as in motor insurance, where some companies cherry pick the good risks. A lucky group will have lower premiums. But a minority will be charged far more, and some will be uninsurable, denied long-term mortgages, life and health insurance.

More seriously, lower premiums may be an incentive to avoid genetic tests, jeopardising preventive changes in diet, drinking or smoking.

One response is to legislate to prevent insurers from using genetic information. New York, California and 11 other US states have such statutes.

But a legislative ban has a big disadvantage: adverse selection. Those aware of their genetic predisposition to disease will insure to the hilt, and so drive up premiums for everyone. Insurers claim this could double or treble current prices. Low-risk people will be denied fairly-priced cover and so may not insure.

Genetic testing currently tells little more about health prospects than family history. But more general tests will create a moral minefield. Is it fair to refuse people cover through no fault of their own? If they are not to be excluded, is it fair that other policyholders should cross-subsidise them?

The unavoidable conclusion is that risks must be priced fairly and transparently in life assurance as in other markets. Insurers must therefore be allowed to ask for genetic and other medical information, and to discriminate on the basis of the results. However, this does not mean that tests should be compulsory.

It's a runner

People love betting. Governments adore the revenue. So it is not surprising that national betting monopolies are common throughout the world. This is particularly true of horse racing totaliser monopolies, which thrive on collecting large amounts of money.

However, given the British Conservative government's penchant for privatisation, and its success in giving the National Lottery to a private company under government franchise, it is surprising that the UK Tote has not been sold off.

It is even more surprising to find the Labour party flirting with the idea. After trotting it in the press recently as a sure thing, the party's leaders seem to have removed it from the list. Perhaps someone gave them a peek at the arguments which persuaded Mr Michael Howard, the Home Secretary, that it was not a runner.

There would, indeed, be some formidable fences to clear. First, it is doubtful whether the Tote is owned by the government. It was established in 1928 with the peculiar status of a "body corporate with perpetual succession", owning its own assets and financially independent.

An Act of Parliament would probably be needed to establish ownership, and the change might not be popular with MPs, especially if it were opposed by the powerful racing lobbies.

The second hurdle would be the Tote's statutory monopoly over totalised betting. This has been justified by the need to generate a big pool of money out of which jackpots can be paid. The Tote is said to need this competitive advantage, especially now that it also faces the very powerful challenge of the National Lottery. But the Tote's monopoly might be difficult to sustain in the private sector, particularly if challenged under EU competition law.

Supporters of the status quo also point out that the Tote gives all its profits to the racing industry, which it could not do if it had shareholders.

These obstacles are surmountable, however. If critical size really is necessary for the Tote, then in the private sector the market would respond accordingly.

Even if a monopoly were essential, a franchise arrangement might be devised similar to that for the highly successful National Lottery. Nor is there an obvious reason why racing rather than any other sport should be supported by a gambling monopoly. But the government could, if it wished, impose a special levy for this purpose.

Most privatisation projects proved less difficult than they first appeared and yielded much wider benefits than predicted. The odds are high that the Tote would run to similar form.

Hunt for the Siberian Tiger

Foreign investors are enthused by Russia's stock market, but the economy is struggling to emerge from crisis, says **John Thornhill**

Russia's infant stock market has started 1997 with a bang. After surging 155 per cent in dollar terms last year on a wave of foreign money, Russian equities have shot up another 46 per cent this year, leaving fund managers scrambling for stock.

Within four years of its creation, the value of Russia's stock market has swollen to more than $50bn (£31bn) – already bigger than Argentina's market, one of the largest in Latin America. More optimistic bankers predict that, by the end of the decade, the size of Russia's stock market could outstrip the entire Latin American market, currently valued at about $500bn.

Russia is "the most exciting, biggest potential play in the world", says Mr Barton Biggs, chief investment strategist at Morgan Stanley, the US investment bank. "It's crazy."

Such enthusiasm for Russia among the world's money managers might suggest to the casual observer that the country's economy is booming. It might even prompt visions of a Siberian Tiger economy clawing for a place among the fastest-growing regions of the world.

But the contrast with the current economic situation – at least that of the formal economy – could hardly be starker. Russia's gross domestic product fell a further 6 per cent last year, its fifth consecutive year of decline.

Mr Yevgeny Yasin, economy minister, concedes that Russia failed to deliver on its predictions that it would turn the economy round in 1996. This, he says, was largely because of the strains of the presidential election campaign. In the run-up to last summer's elections, the Russian government borrowed excessively to fund lavish spending programmes which drove up interest rates. "The economy was the hostage of Russian democracy."

"We are still in a situation of crisis," Mr Alexander Livshits, finance minister, said this month, expressing fears that the low rate of tax collection could undermine fragile public finances. "I do not believe that the tasks of financial stabilisation have been resolved."

Judging by the behaviour of Russian managers, there appear to be few signs of a swift economic turnround: industrial investment dropped 18 per cent in 1996. Some $20bn of domestic capital flooded out of the country ahead of last year's presidential elections because companies feared the communist party might return to power. That capital has only slowly been returning.

The nation's pessimistic mindset is perhaps best reflected in the birth rate, which has fallen from 17 births per 1,000 people in 1985 to just nine per 1,000 last year. Demographers link this trend with popular concerns over Russia's economic future and predict the population will fall from 147m to 123m over the next three decades – an almost unprecedented trend in a peacetime nation.

Against such a seemingly bleak background, the question arises: have western fund managers lost their heads? Or are portfolio investors, which are regularly chided for their short-term view of the world, adopting a remarkably far-sighted perspective on Russia?

The first caveat is that the Russian stock market remains extremely small and volatile. A good day's turnover of Russian shares amounts to about $50m – considerably less than the average for Microsoft, the US software group. The market's poor liquidity means that some shares can rise by 25 per cent on the day; they can also fall by the same amount.

Moreover, the Russian share price surge may simply reflect a one-off arbitrage between domestic and world asset prices. Fund managers argue that Russian assets are fundamentally cheap and must inevitably be revalued upwards to world levels.

Mr David Curl, director of Hong Kong-based Regent Fund Management, one of the biggest portfolio investors in Russia, illustrates the undervaluation of domestic assets by comparing the market worth of electricity generators in Russia and Malaysia.

UES, Russia's main, partially privatised power utility, has half the market capitalisation of its Malaysian counterpart, "but Russia's population is seven times as big and the company's assets are 10 times greater," he says. "Despite the stock market's rise, nothing is yet expensive."

Such arguments ignore the factor of time and the cost of money. Buying UES's shares may prove a poor investment if it takes the company 10 years to restructure sufficiently to make a decent return on its assets. The critical question for investors – as well as for the Russian people – is how quickly the Russian economy will begin to grow.

The government argues that, during the five years Russia has been pursuing economic reform, a great deal has been achieved and a firm platform for growth established. Inflation has been cut from an annual rate of 843 per cent in 1993 to a forecast 12 per cent this year. The rouble, once a byword for decline, has been stabilised within a trading band set by the central bank against the dollar. Prices have largely been liberalised. The bulk of industry has been privatised. Tariff barriers have been reduced and international trade has blossomed, with exports rising by 65 per cent to nearly $90bn over the past four years.

This improvement in the overall economic environment has stimulated competition in the corporate sector and permitted an explosion of private-sector activity, visibly improving the lives of millions of Russians and creating a small but growing middle class. Car ownership was 38 per cent higher in 1995 than three years previously. More than 2.5m Russians holidayed abroad last year, compared with a trickle during the Soviet era.

Mr Vladimir Konovalov, chief economist at the Moscow office of the World Bank, says all the preconditions for growth are in place now that interest rates have finally fallen from last year's stratospheric levels.

"For the past four years, I have heard all sorts of people say that Russia is going to career off a cliff and yet it has followed a classic stabilisation pattern. All the studies show that, within a year to 18 months of macro-stabilisation, transition economies start to grow. I cannot see why Russia is so uniquely different that it will not follow this path," he says.

Most independent economists predict modest growth of perhaps 2 per cent this year, rising to an annual rate of 5 per cent by the end of the decade.

Yet, in spite of the seeming success of its stabilisation programme, the Russian government is anxious about the economic prospects for 1997. The overwhelming danger remains the rickety state of its public finances and the rapid build-up of domestic debt.

Last year's presidential elections imposed extraordinary strains on the federal budget. It resulted in the deficit mushrooming to 7.6 per cent of GDP (including interest payments), which economists say is unsustainably large. But this year's draft budget, approved last week by the upper house of parliament, also appears dangerously loose, with a primary budget deficit target of 3.5 per cent. Even government ministers concede spending and revenue forecasts have been set at unrealistically high levels.

Mr Sergei Dubinin, the central bank governor, has urged the government to cut its spending plans. He warns that the financing of such a large deficit could lead to a "dangerous" snowballing of debt, crowding out investment and stifling growth.

A forthcoming paper* by two western academics also highlights the inherent fragility of Russia's public finances, drawing ominous parallels with the economic situation of Weimar Germany in the 1930s.

The financing of the budget deficit, chiefly through high-yielding, short-term debt instruments, may have only postponed, rather than won, Russia's war against inflation, the authors argue. If Weimar Germany's experience is a relevant guide, true economic stabilisation can only be achieved on the basis of a balanced budget.

"The combination of high yields, low tax collection and persistent recession make the present Russian situation rather alarming," the paper concludes.

If the Russian government is to skirt this danger it will have to make good its promises of restructuring government spending – particularly on the military and on social welfare – and modernise its tax code.

A mission from the International Monetary Fund in Moscow this week is goading the Russian administration to pursue other structural reforms. In particular, it is urging the government to demonopolise core parts of the economy, such as railways, oil transport, electricity generation, and gas supply in order to promote competition and growth.

It is a big agenda and the government has made only a modest start. The hope is that Russia's ambitious new generation of corporate managers will lend their weight to the reform effort when they begin to scent the beginnings of an upturn.

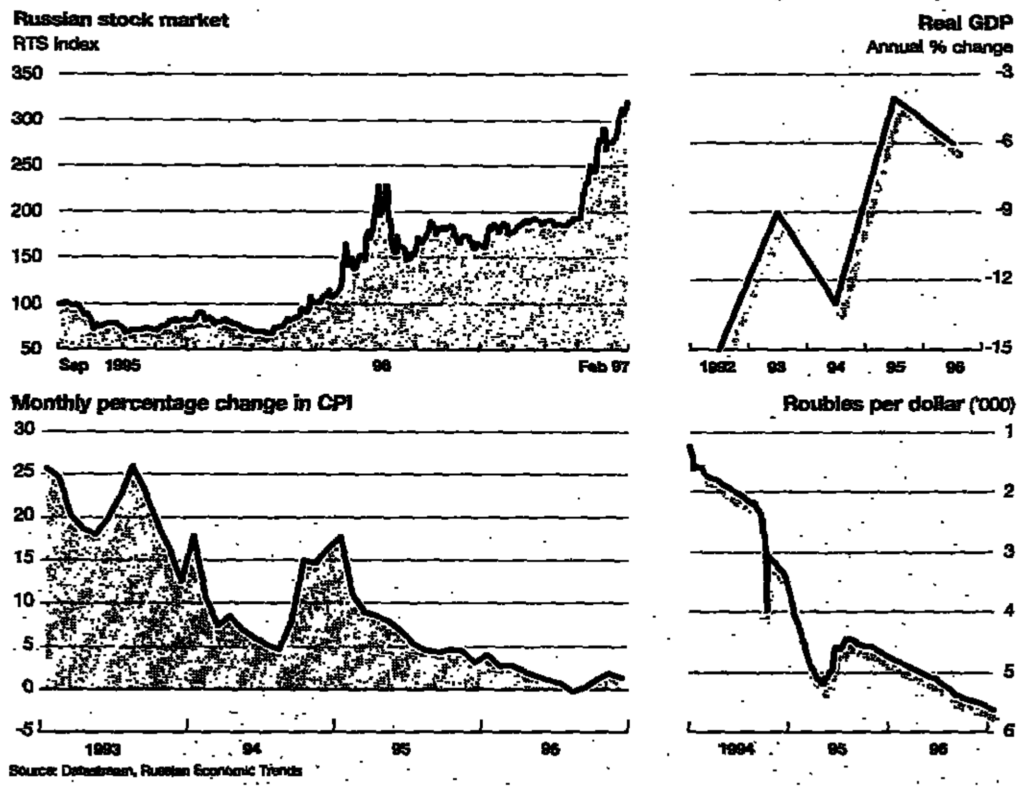
Mr Konovalov of the World Bank argues the free market instincts of Russia's budding capitalists will help remove obstacles to economic growth and determine where the best opportunities for investment lie.

"In Russia we no longer have a Gosplan [the Communist state planning agency] to tell us where growth is going to come from," he says. "At this stage you have to relax and just let it happen."

Weimar Germany and Contemporary Russia, by Niall Ferguson and Brigitte Granville, will be published in the next edition of Voprosii Ekonomiki

Two faces of Russia: strong stock market, weak economy

Alexander Livshits finance minister — Yevgeni Yasin economy minister



Source: Datastream, Russian Economic Trends

OBSERVER

Go south, young man

■ Not so very long ago Welsh looked like a dying language in its native land, so it's surprising to find the UK government exporting mouthfuls of consonants to the valleys of Patagonia. Three Welsh language teachers have set sail for Argentina – courtesy of a £40,000 government grant – as part of a three-year programme to rekindle national identity among the descendants of nineteenth century emigres.

The plan is to double the 350 or so students currently attending Welsh classes in Argentina and to train-up local teachers. Volunteers from the Wales-Argentina Society have been on the case for some years without official support; government backing is the result of their vigorous lobbying and support from Conservative MP Rod Richards.

The society reckons there are about 5,000 Welsh speakers scattered across Argentina. The community runs its own Eisteddfods, as arts festivals are known back in Wales, and publishes an occasional newspaper – "Y Dravod" or "The Debate".

But the younger generation need plenty of encouragement to wrap their tongues around the language of their fathers. With the future of the language hopefully secured, Wales-Argentina activists are now turning their attention to spiritual matters.

Their next target is to provide a helper for Patagonia's only Welsh-speaking minister of religion, who currently has his work cut out tending 18 far-flung chapels.

Taxing question

■ So what weighty matters await the government of Andorra, newly re-elected by the 10,000-strong electorate of the tiny but tax-advantaged Pyrenean state?

It seems Jacques Chirac may well pay a state visit in coming months, if he can circumnavigate the single winding road that connects Andorra with its neighbours. The French president has good reason to drop in; he is one of two "co-princes" of Andorra under a constitution adopted four years ago. The other is the bishop from the nearby Spanish town of Urgell.

Plans for a more unusual state visit are also being talked about. Head of government Marc Forné Molné was livid last year when Benjamin Netanyahu, the Israeli prime minister, said Andorra was a possible model for the Palestinian state. But after meeting the Israeli premier in Madrid, Forné appears to have been mollified; he now says he is considering diplomatic exchanges.

Commercial links with Israel concerning water – the one natural resource which Andorra has in abundance – are also being mooted. Seems an awfully long way to build a pipeline, though.

McGrowing

■ Philippine fast food chain Jollibee is entering the lion's den by opening its first outlets in California, the backyard of McDonalds and Burger King. But Asia's fastest-growing fast food chain has all the swagger and confidence of the new kid on the block.

Jollibee has prospered at home by catering to the peculiar tastes of Filipinos; aside from standard burgers it offers exotic dishes such as Palabok Fiesta and plenty of goodies to satisfy a sweet tooth.

Under the canny stewardship of Tony Kitchner, the Australian who heads its international operations, Jollibee has taken the formula overseas by concentrating on the thousands of Filipinos working in countries such as Bahrain, Indonesia, Malaysia and Brunei.

It's no coincidence that California is home to the largest single population of Filipinos outside the archipelago. But the company's Regular Yums with cheese have proved a hit with non-Filipinos in other countries and are now ready to go head-to-head with the mighty Big Mac. Stand by for a burger battle – or should that be a fast food fracas?

Tangled web

■ Every organisation is getting hooked up to the world wide web, so militant Islamic resistence movement Hezbollah was bound to get in on the act sooner or later. A few weeks back Israeli PM Benjamin Netanyahu held his first internet press conference; the Iranian-backed fundamentalists have responded by opening a web site.

Visitors to the Hezbollah home page will find a colour graphic of the organisation's former secretary general, Sheikh Abbas Mussawi, who was killed by Israeli soldiers in 1992. The page also promises that "reports on the association's activities and Islamic resistance operations will be released on this page in future."

An e-mail address is thoughtfully provided for anyone who cares to comment. If only the Arab-Israeli conflict was always conducted through modems.

The Financial Times

100 years ago

Italian War Preparations
Rome, 18th Feb. It is stated this afternoon that Admiral Bria, Minister of Marine, has given the necessary orders for the concentration within Sicily within 24 hours of a sufficient naval force with a view to the eventual despatch of an expedition to Tripoli. The Government, it is also reported, has telegraphed to the commander of the Italian forces in the Red Sea and Indian Ocean instructing him to send back to Italy two of the vessels of his squadron.

Fighting In Bechuanaland
Cape Town, 18th Feb. A patrol of 80 men of the Cape Mounted Rifles encountered Galishwo, the rebellious Bechuana chief, and his followers at Landberg. Owing to the number of rebels in the field and the scarcity of water, the Rifles were obliged to retire.

50 years ago

France And World Bank
France is hoping to secure the long awaited loan from the World Bank in the very near future. The principal French delegate, M. Baumgartner, president of the Credit National, has returned to Washington. It is understood that the French Government has obtained a firm assurance that France will be the first to get a loan from the Bank.

FINANCIAL TIMES

Wednesday February 19 1997

China and Japan central banks promise stability for HK dollar

By William Dawkins in Tokyo and Tony Walker in Beijing

Chinese and Japanese central bankers yesterday pledged to co-operate to ensure the Hong Kong dollar's stability after the territory reverts to Chinese rule in July.

Mr Chen Yuan, vice-governor of the People's Bank of China, told a seminar in Tokyo that the Chinese central bank would provide sufficient liquidity to the Hong Kong Monetary Authority – in effect the territory's central bank – if the colony's currency came under pressure.

His strong support of the Hong Kong dollar was reinforced by comments from Mr Yasuo Matsushita, governor of the Bank of Japan, who said the Japanese central bank would co-operate with the Hong Kong authorities to ensure the smooth development of its financial markets.

The comments follow assurances by Mr Dai Xianglong, governor of the People's Bank, last September, that "we will help in case of an emergency". He added that Hong Kong was capable of maintaining a stable currency on its own.

At yesterday's seminar, Mr Joseph Yam, chief executive of Hong Kong's monetary authority, said there would be no change in the colony's policy of pegging its currency to the US dollar.

The central bankers' statements are likely to be greeted with relief by Japanese commercial banks and general trading companies, which have substantial investments in Hong Kong, an important operating base for their businesses across east Asia.

The seminar, hosted by Mr Matsushita, was the final stage of an international road show by the Hong Kong and Chinese monetary authorities to answer questions about the territory's financial outlook after the handover.

A similar meeting was held in New York last week, hosted by Mr Bill McDonough, president of the Federal Reserve Bank of New York.

Mr Matsushita said: "Hong Kong has played an important role in financial markets and the stability of Hong Kong finance and the economy is extremely important, not only for Hong Kong and China and Asian nations, but for the world."

Senior Japanese executives have privately expressed concern over the position of their investments in the colony after the hand-over.

These include the risk of speculative pressure on the currency and that Hong Kong depositors might weaken the dollar by placing their cash in other currencies.

But Japanese executives have been reluctant to voice their concerns openly for fear of antagonising the Chinese leadership and jeopardising their Hong Kong interests.

Santer promises reforms to avert clash over BSE

By Neil Buckley in Strasbourg and George Parker in London

Mr Jacques Santer, European Commission president, yesterday promised "revolutionary" reforms to agriculture and food policy in an effort to avert a clash with the European Parliament over the Commission's handling of BSE.

Facing a censure motion in the European assembly, Mr Santer pledged to try to amend the Treaty of Rome to give greater priority to health protection – with parliament given an enhanced role in health issues – and establish a more coherent food policy.

While blaming the UK for the "mad cow" crisis, he admitted the European agricultural system, underpinned by the Common Agricultural Policy, had played a role. "Can we really go on claiming BSE is an accident of nature? Is it not actually the consequence of a model of agricultural production which pushes productivity at whatever cost?" he asked.

Mr Santer's pledges went beyond the administrative reforms already announced, which include the transfer of responsibility for human health from Mr Franz Fischler, agriculture commissioner, to Ms Emma Bonino, consumer policy commissioner.

MEPs in Strasbourg are expected today to endorse the report of parliament's special inquiry into the beef crisis, which rebukes the Commission and UK government for serious errors. Downing Street yesterday said many of the criticisms of Britain's handling of the BSE crisis were "complete tosh".

MEPs are likely to give Mr Santer a nine-month deadline to take "urgent and effective action", or face parliamentary censure – which would require all 20 European Commissioners to resign.

An immediate censure motion of Brussels over its handling of the crisis, to be voted on tomorrow, is expected to fall short of the required two-thirds majority, in spite of being signed by 70 MEPs.

Mr Santer admitted mistakes by his administration and predecessors but repeated his rejection of allegations that the Commission had put the beef market above public health, obstructed parliament's inquiry and "caved in" to UK pressure to lift the export ban on gelatine made from British beef.

Mr Santer said CAP reform would be a priority once revision of the Maastricht treaty was completed, and would involve "nothing short of a revolution in our way of looking at food and agriculture". He said reform would focus on quality, environmental protection, and a return to "natural production methods".

The MEPs' report includes recommendations that the UK repay EU funds spent on eradicating BSE, and that the European Court take action over the refusal by Mr Douglas Hogg, UK agriculture minister, to appear before their inquiry.

Ahmanson bids $6bn

Continued from Page 1

Wall Street analysts suggested the offer was attractive. Mr Thomas O'Donnell, analyst with Smith Barney, said: "I think they are trying to put a very attractive deal on the table, to make the stock price rise. That might keep potential suitors at bay."

Several commercial banks outside California are considered possible friendly alternative bidders. They include North Carolina-based NationsBank, the nation's third largest, Norwest and First Bank System of Minnesota, and the thrift, Washington Mutual.

Ahmanson's offer document says the merger would enhance cash earnings per share by 5 per cent this year, 15 per cent next year, and 26 per cent in 1999. Its aggressive initial offer values Great Western at $42.53 per share, a 24.2 per cent premium over its closing price of $34.25 at the end of the previous trading day.

Ahmanson's financial advisers on the bid are Credit Suisse First Boston and Montgomery Securities.

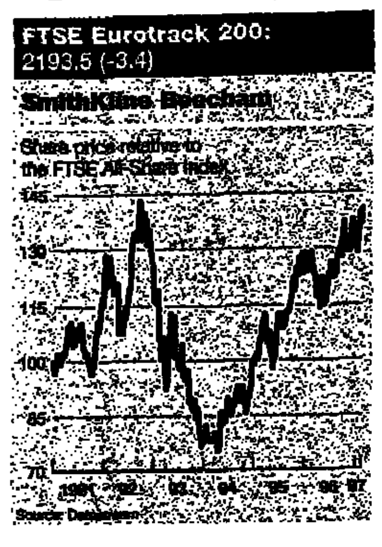
THE LEX COLUMN

Deng in danger

Rumours that Mr Deng Xiaoping, China's paramount leader, is close to death may or may not turn out to have been exaggerated. But their significance almost certainly has been. For one thing, Mr Deng's market-oriented reforms look built to last. The real debate in China is about the pace of further change, not putting what has already happened into reverse. In any case, Mr Deng has for some time been too frail to have any significant role. In practice, the process of transition most expect after his death – a handover to Mr Jiang Zemin, currently president – began several years ago.

None of this is to deny that Mr Deng's death would probably set off an unsettling round of political manoeuvring. And whatever the broad outcome, the risk of specific investor-unfriendly policy changes emerging must always be real. But that alone is not enough to justify yesterday's severe jitters in Chinese stock markets. On the contrary, since Mr Deng's shaky health has long been in no doubt, investors cannot rationally regard the possibility of his death as any kind of surprise. The uncertainties it might provoke should already be built into their expectations. Hence, perhaps, Hong Kong markets' calmer reaction to the rumours; certainly this looks better judged.

FTSE Eurotrack 200:
2193.5 (-3.4)



Source: Datastream

Ciba Speciality

Ciba Speciality looks attractive. The demerger from Novartis will create one of the world's largest speciality chemical companies, with leading positions in additives, pigments and epoxy resins. Yesterday's price range suggests a market capitalisation of SFr5.2bn-SFr6.2bn ($3.6bn-$4.3bn). Including SFr1bn of debt, this values the group at a ratio of 0.9-1.1 times enterprise value to sales, a hefty 20 per cent discount to its European rivals. Moreover, cost reductions should fuel rapid earnings growth while there is huge room to improve stock control and cash generation. In addition, the management's decision to invest one year's salary into shares is admirable.

Ciba's flotation is also the latest evidence of this industry's far-reaching restructuring, following Unilever's decision to sell its £5bn ($8.1bn) speciality chemicals arm and the proposed merger of Hoechst's speciality operations with Clariant. Corporate activity should create fewer, more profitable producers and prompt the emergence of a properly analysed European speciality chemicals sector. The established US peer group is valued 10-40 per cent more highly.

This should also be good news for Europe's chemical conglomerates. While they have been re-rated on the basis of their pharmaceutical activities, the stock market has yet to distinguish between chemical businesses, tarring bulk and speciality chemicals with the same brush. A change in perception could give share prices another push.

SmithKline Beecham

SmithKline Beecham is set to increase earnings by 15 per cent a year into the next century, ignoring currency effects. The group's anti-depressant, Seroxat, should pass the £1bn sales mark in 1997; and the vaccines market, where SmithKline is world leader, is expected to double in size to $6bn over four years. There are five medicines in late-stage clinical trials and, having caught up on research and advertising spending, the management can focus on boosting cash flow. Only a handful of drug stocks, including Merck, Pfizer and Novartis, can match SmithKline's prospects.

If there is a niggle, it is that the group could tidy up its portfolio. Keeping the low-return clinical laboratories business can perhaps be justified, as it cements relationships with big managed care groups. But old Beecham consumer businesses, such as Ribena, Lucozade and Aquafresh toothpaste, would surely fit better with the likes of Procter & Gamble. Their sale would also raise a handy £1bn-£2bn towards an acquisition.

This looks unlikely, however. Rising share prices and healthy volumes have taken the pressure off companies, slowing the drug industry's consolidation. Sir Richard Sykes, Glaxo Wellcome's chief executive and previously an advocate of buying market share through big deals, said yesterday he would concentrate on bolt-on purchases. In the absence of merger and acquisition activity, investors will continue to focus on sales growth and new products. On that score, SmithKline is up there with the best of its peers.

BZW

UK investment banks have long suffered from a credibility problem. How can they compete with their grander US cousins without the advantage of such a large domestic market? A 29 per cent fall in profits, and paltry 8 per cent return on capital, provide an inauspicious backdrop for challenging this received wisdom. Yet BZW believes it can make sustainable, high profits and is investing to secure them. That is the real message behind its results.

Sceptics argue that Barclays, BZW's parent, is simply throwing good money after bad. But that counsel of despair is inappropriate. There are huge swathes of profitable business to be done, especially in continental Europe and Asia, where US investment banks enjoy no compelling competitive advantage. And with continental Europe still in the early stages of corporate restructuring, some of the most lucrative business in the years ahead will be in BZW's backyard.

This still leaves the question of whether BZW will be one of the winners. The auguries are positive. Mr Bill Harrison, the chief executive, has identified the priorities – boosting the advisory, markets and equity origination businesses – and made some strong hires. What remains is more difficult. If these costs are to start delivering returns, the individuals will have to be welded into a team. And, critically, the bank's different arms will have to learn how to leverage effectively off each other.

Mr Martin Taylor, Barclays' chief executive, is right that not all costs are bad, nor all revenues good. But he cannot doubt that BZW will need to start producing revenues if his judgment is to be vindicated.

Additional Lex on buy-backs, Page 21

Airbus to challenge in 747 market

By Michael Skapinker in Toulouse

Airbus Industrie is to compete with Boeing in the market to replace the US manufacturer's 747 jets by developing its own planned "super jumbo" jet into a family of aircraft.

Mr Jean Pierson, chief executive of the European consortium, said yesterday that the smallest model would carry fewer than 500 passengers and the largest more than 600.

Mr Pierson said the smaller version would be offered to airlines planning to replace their 400-seat Boeings, the largest of the US manufacturer's jets.

He stressed that Airbus had no plans to produce a 400-seater. Boeing would respond to any direct incursion into this market by cutting prices of the 747. "They will break our backs," he said. Instead, Airbus would aim to supply slightly bigger, more modern aircraft that airlines could use during the next century.

The consortium was determined to press ahead with its proposed A3XX aircraft in spite of the decision last month by Boeing of the US to shelve its own 550-seat "super jumbo". However, Boeing's decision had removed some of the pressure on Airbus, which is owned by Aerospatiale of France, Daimler-Benz Aerospace of Germany, British Aerospace and Casa of Spain.

He said Airbus had more time to consult airlines and would probably not announce a decision to go ahead with the A3XX before the end of next year or the beginning of 1999. The A3XX is scheduled to go into service in 2003.

Airbus was talking to several airlines, including British Airways, Singapore Airlines, Japan Airlines and United Airlines of the US. Federal Express, the US freight company, was interested in a cargo version of the A3XX.

Mr Pierson said that, while the basic aircraft would carry 550 passengers, Airbus was also likely to produce both larger and smaller versions. The A3XX would be aimed at two types of airline. The first would be those constrained from carrying more passengers by congestion at their home airports. An example was British Airways, which is finding it difficult to increase capacity at London's Heathrow airport.

The second would be carriers needing to replace ageing Boeing 747-400s in the next decade. These airlines would be looking for jets slightly bigger than the Boeing 400-seaters. Mr Pierson indicated that the smaller version of the A3XX would have fewer than 500 seats.

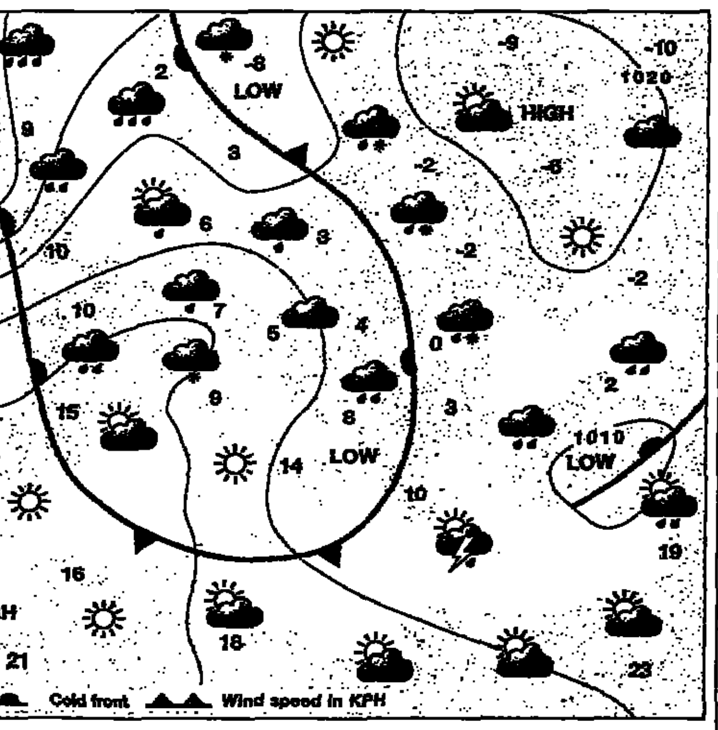
FT WEATHER GUIDE

Europe today

It will be wet and windy over north-western Europe. In particular, the British Isles will have plenty of rain and gale force westerly winds, caused by a disturbance west of Scotland. An associated frontal zone will bring rain to western France, the Benelux and Germany. It will be sunny over most of Spain and central Italy. Northern Italy will have a mixture of sun and cloud while the south will have showers. Greece will have rain with thunder showers. Rain is expected in Turkey. The southern Mediterranean will be dry with plenty of sunshine.

Five-day forecast

As the week progresses, high pressure over the western Mediterranean and Spain will extend its influence toward central Europe. This will bring improving conditions to the area.
The British Isles will continue to have one disturbance after another as a westerly air stream is maintained.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

	Maximum	Beijing	sun 7	Caracas	sun 27	Faro	sun 18	Madrid	sun 16	Rangoon	sun 34
	Celsius	Belfast	rain 13	Cardiff	rain 11	Frankfurt	rain 8	Majorca	fair 16	Reykjavik	snow 0
Abu Dhabi	sun 26	Belgrade	rain 3	Casablanca	sun 18	Geneva	fair 10	Malta	fair 15	Rio	thund 30
Accra	fair 31	Berlin	rain 7	Chicago	fair 5	Gibraltar	sun 17	Manchester	rain 9	Rome	sun 14
Algiers	fair 19	Bermuda	fair 22	Cologne	rain 7	Glasgow	rain 11	Manila	shower 31	S. Frsco	sun 17
Amsterdam	rain 9	Bogota	thund 21	Dakar	sun 27	Hamburg	shower 7	Melbourne	sun 38	Seoul	fair 2
Athens	thund 11	Bombay	sun 30	Dallas	rain 18	Helsinki	sun -2	Mexico City	fair 23	Singapore	thund 32
Atlanta	fair 21	Brussels	rain 9	Delhi	sun 24	Hong Kong	fair 16	Miami	fair 28	Stockholm	rain 3
B. Aires	fair 23	Budapest	cloudy 4	Dubai	sun 27	Honolulu	fair 27	Milan	fair 11	Strasbourg	rain 10
B.ham	rain 10	C.hagen	shower 3	Dublin	rain 14	Istanbul	rain 5	Montreal	snow 0	Sydney	fair 27
Bangkok	fair 35	Cairo	shower 18	Dubrovnik	rain 7	Jakarta	fair 31	Moscow	cloudy-10	Tangier	sun 19
Barcelona	sun 14	Cape Town	windy 25	Edinburgh	rain 8	Jersey	rain 9	Munich	rain 7	Tel Aviv	shower 19
						Karachi	sun 27	Nairobi	fair 29	Tokyo	sun 10
						Kuwait	sun 25	Naples	fair 11	Toronto	fair 5
						L. Angeles	sun 23	Nassau	fair 27	Vancouver	rain 11
						Las Palmas	sun 22	New York	fair 13	Venice	fair 10
						Lima	sun 27	Nice	fair 13	Vienna	cloudy 6
						Lisbon	sun 18	Nicosia	shower 18	Warsaw	sleet 3
						London	rain 10	Oslo	rain 2	Washington	fair 18
						Lux.bourg	rain 6	Paris	cloudy 10	Wellington	fair 21
						Lyon	fair 10	Perth	fair 29	Winnipeg	cloudy -4
						Madeira	sun 19	Prague	cloudy 5	Zurich	rain 8

FINANCIAL TIMES
COMPANIES & MARKETS
Wednesday February 19 1997
Week 8

IN BRIEF

Merger boosts Swedish banks

Shares in Swedish banks soared as two of the country's biggest confirmed they were to merge and a series of results from the sector showed record profits in 1996. Swedbank announced it had agreed a merger with Föreningsbanken to form the country's second-largest banking group with combined total assets of SKr619bn ($83.36bn). Page 16

Brahma posts 21% profits drop
Heavy investment in new capacity led Brahma, the biggest brewer in Brazil, to announce a 21 per cent drop in annual net profits despite a modest increase in sales. Brahma said profits had been held back by exceptional charges; including the R$45m ($42.9m) start-up cost for its Nova Rio brewery. Page 18

Mondadori shares fall after resignation
The resignation of Mr Paolo Forlin from Mondadori, one of the main subsidiaries of the Fininvest empire of Mr Silvio Berlusconi, former prime minister, sent the shares of the Mondadori publishing group tumbling on the Milan stock exchange. Page 19

German banks' profits advance
Two of Germany's biggest banks, Deutsche Bank and Bayerische Vereinsbank, reported sharp increases in operating profits for 1996, but Deutsche managed only a small rise in net income compared with Vereinsbank's stronger advance. Page 19

Gulf Canada wins control of Clyde
Gulf Canada Resources won control of Clyde Petroleum, the UK oil independent, by the narrowest margin the oil sector has seen for years after Mr Colin Phipps, Clyde's founder, and other former directors sold their stakes. Page 21

SmithKline Beecham up 14%
Surging sales of new drugs, especially anti-depressants, helped SmithKline Beecham, the UK's second-largest drugs company to a 14 per cent rise in pre-tax profits from £1.36bn to £1.55bn ($2.51bn). But profits were hit hard by the strength of sterling last last year. Page 21

Companies in this issue

Market Statistics http://www.FT.com

Chief price changes yesterday

FRANKFURT (DM)			
Rises			
BMW Pref	822	+	12
Deutsche Bab	76.5	+	6
Hamburg Elek	492	+	12
Ind Werke	382.5	+	8.5
Rheinelektra	1253	+	38
SAP AG	259.8	+	8.1
NEW YORK ($)			
Rises			
Converse	25¼	+	2¾
First Republic	24	+	3¼
Great W. Fin	44⅛	+	9⅛
Harcon GMS	16¾	+	2½
Renaiss Hotel	29⅝	+	4½
Falls			
Barclays	71⅛	−	8
LONDON (Pence)			
Rises			
Britannic	870	+	66½
Pittard	85	+	5½
Titon Hldgs.	123	+	18
Falls			
Chelsea Vge	155	−	10
Macro 4	422½	−	52½
VTR	55½	−	20
TORONTO (C$)			
Rises			
Getchell Gld	58.20	+	6.20
Onex Corp	25.00	+	1.20
Pendaries Pet	22.50	+	1.50
Falls			
Bre-X Minerals	21.05	−	1.95
Cognos	31.95	−	2.05
Spectral Diag	14.10	−	1.15
PARIS (FFr)			
Rises			
Havas Advert	669	+	27
Legris	283	+	14.9
Falls			
Accor	764	−	16
Alcatel	589	−	12
CGIP	1580	−	48
St Gobain	824	−	17
TOKYO (Yen)			
Rises			
Nippon Signal	855	+	45
Falls			
Asics Corp	238	−	19
Konica	721	−	32
Shimizu	721	−	39
Taisei	502	−	33
Yaohan Japan	377	−	35
HONG KONG (HK$)			
Rises			
Hong Kong Tel	13.2	+	0.2
Falls			
Dickson Concpt	27.5	−	1.4
Dao Heng Bnk	36.2	−	1.2
Wing Hang Bnk	33.7	−	1.1
China Mtr Bus	89.5	−	1.0
Gt Eagle Hlds	29.6	−	0.9
BANGKOK (Baht)			
Rises			
Post Publish	50.5	+	4.5
Premier Ent	22.0	+	2.0
Thai Tele	23.25	+	2.0
Falls			
Charan Ins	45.0	−	5.0
Mutual Fund	100.0	−	11.0
Navakij Ins	50.0	−	5.0

New York and Toronto prices at 12.30pm.

Korea tackles insurance losses

Seoul opens door for conglomerates to rescue debt-ridden market

By John Burton in Seoul

South Korea's biggest conglomerates, or chaebol, will be allowed to enter the debt-ridden domestic life assurance sector in a state-sponsored attempt to rescue it.

The ministry of finance and economy said it would allow Hyundai, LG and Daewoo to participate in the world's sixth biggest assurance market as long as they take over at least one of the 17 domestic assurance companies that are considered technically insolvent.

There are 28 local companies, including joint ventures, operating in the sector. Some analysts believe yesterday's proposal may prove a blueprint for also solving the problems of the banking industry, which is suffering from a huge burden of bad loans.

The chaebol were already allowed to operate non-life insurance companies. However they have been largely barred from life assurance and banking because of fears their involvement would increase their considerable economic power as they gained access to new sources of financing.

The insurance industry is dominated by six main companies, including Samsung, which is exempted from the chaebol ban as it was operating in the market before the restriction was imposed.

The entry of the chaebol from the second half of the year is expected to lead to a consolidation of the industry as medium-sized companies vanish through mergers and acquisitions.

The government is also seeking to improve the industry's competitiveness before it is open to full foreign competition as a result of commitments made to the Organisation for Economic Co-operation and Development, which Seoul joined last year. The industry's problems stem from deregulation of the market in 1987, with the entry of 27 new companies in the last decade. Most have had difficulty in challenging the dominance of the "big six" companies, which include Samsung, Korea, Kyobo, and Hungkuk, with a combined market share of 73 per cent.

The 15 new domestic companies had a combined loss of Won1,100bn ($1.25bn) in the last fiscal year, while 12 foreign companies, including seven joint ventures, lost a total of Won340bn, according to the finance ministry.

The government has required life assurance companies to increase their capital base by next month to cover losses, with those that fail being ordered to suspend operations or being forcibly merged.

In another attempt to restore financial strength to the sector, the government has tripled the minimum capital requirement for new businesses to Won30bn.

But foreign companies will be allowed to open branches with Won3bn in capital.

Companies taking stakes in life assurance companies and the more profitable non-life insurance sector also face more stringent capital requirements.

Novartis values Ciba Chemical spin-off at $4bn

By William Hall in Zurich

Ciba Specialty Chemicals yesterday put an indicative price on its forthcoming global offering which is expected to give the company a stock market value near SFr6bn ($4.1bn).

In one of the world's biggest spin-offs – from Novartis, the pharmaceutical giant formed from last year's merger of Ciba and Sandoz – the shares will be priced at between SFr72 and SFr86 in the offering before the start of trading next month.

The details, announced in Zurich and London, were welcomed by analysts yesterday. Mr Gilbert Puder of Bank Sarasin noted that the group's market capitalisation was low compared with its 1996 sales of SFr6.7bn.

The transaction is the first tax-free demerger in Switzerland, and Mr Marco Illy, a managing director of Credit Suisse First Boston, one of Ciba's advisers, believes it could spark similar restructurings as other Swiss companies realise they can demerge without incurring onerous tax liabilities.

If Novartis had distributed Ciba Specialty Chemicals stock to its shareholders, they would have faced substantial tax bills. To avoid this, the demerger had to be structured as a deeply discounted one-for-one rights issue of 72m shares at SFr10. If Novartis shareholders do not take up their shares they can sell them to a banking syndicate that will sell them in the global offering.

Mr Rolf Meyer, Ciba's chairman who pioneered the tax-free scheme, said yesterday that demerging Ciba Specialty Chemicals from Novartis would sharpen the group's focus on shareholder value.

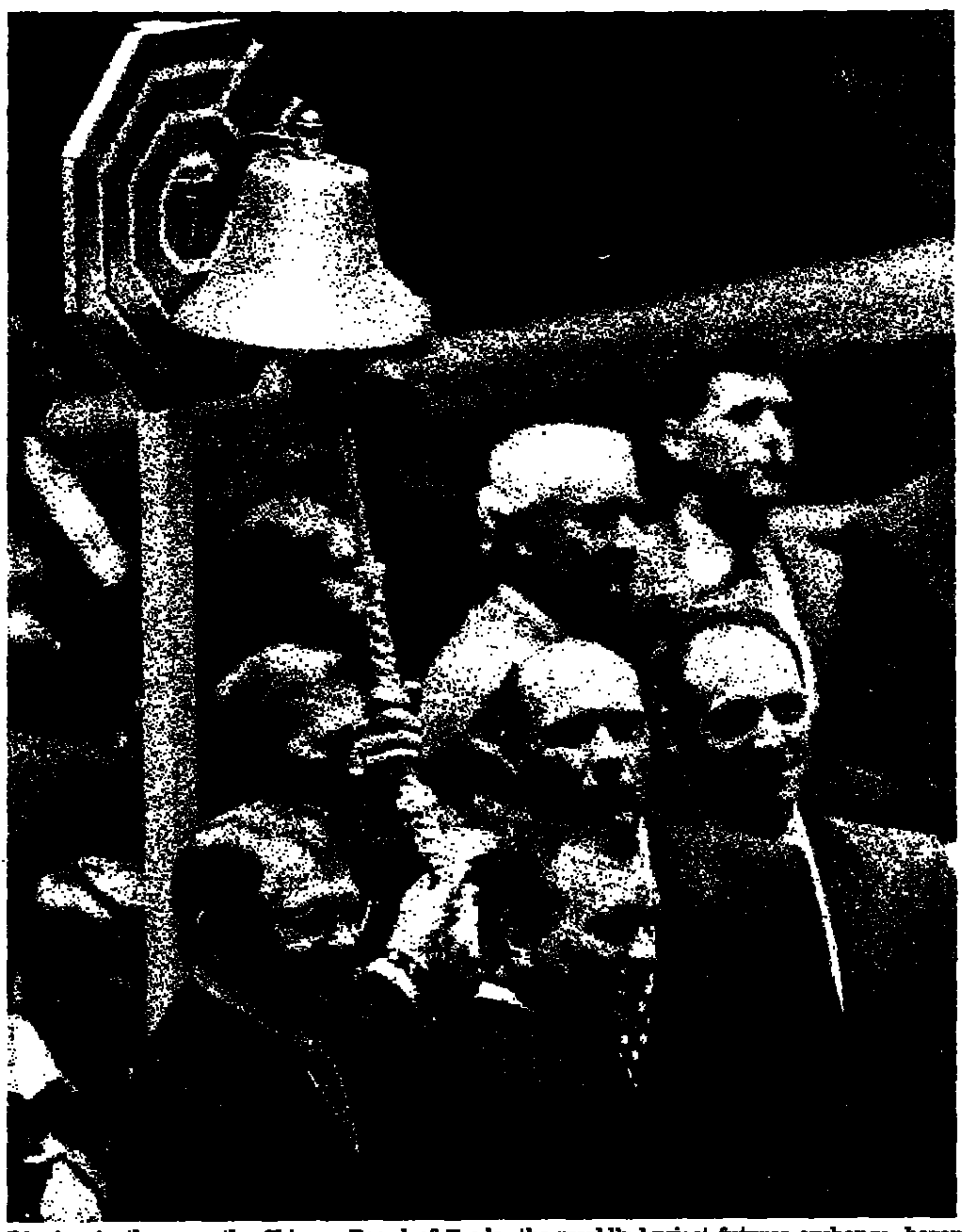
He said Ciba was committed to "further improving its operational excellence and profitability".

The group, which has not yet announced its 1996 results, expects a "marginal increase in operating profit before a SFr1.1bn restructuring charge. Some SFr202m covers additional environmental provisions, SFr340m covers separation costs and SFr535m relates to a streamlining of the five divisions. A further SFr250m to SFr300m of restructuring costs will be taken in 1997.

It estimates that the restructuring will realise benefits of SFr80m in 1997 and SFr150m a year thereafter. After the restructuring Ciba will have SFr1bn of debt and more than SFr4bn of equity.

The spin-off, believed to be second in size only to Zeneca, Imperial Chemical Industry's former pharmaceuticals arm, is expected to create the world's largest speciality chemicals company measured by stock market capitalisation.

Lex, Page 14



Ringing in the new: the Chicago Board of Trade, the world's busiest futures exchange, began trading in its new $182m building yesterday. Taking part in a bell-ringing ceremony to open trading were (from left) Tom Donovan, CBoT president, Chicago mayor Richard Daley, CBoT chairman Patrick Arbor and CBoT trading facility task force chairman David Brennan Picture: Reuter

Deutsche Babcock to shed 10,000 jobs over two years

By Peter Norman in Bonn

Deutsche Babcock, the lossmaking German engineering group, yesterday warned it would shed about one in three of its 29,300 employees in the next two years.

Mr Klaus Lederer, who took over as chief executive at the beginning of this month, said that up to 10,000 jobs would go. About 5,300 employees would leave the group as a result of disposals, while more than 4,000 jobs would go under rationalisation measures, including some dismissals.

The company announced in January a DM434m ($257m) loss for the year to the end of September 1996. Yesterday, it reported that its loss in the first four months of its current year was cut "in line with budget" from about DM250m last year to DM150m.

Turnover edged ahead from DM1.8bn to DM1.9bn in the four months, while incoming orders were virtually unchanged at DM2.8bn, leaving the order book stable at DM11.4bn compared with a year ago.

Mr Lederer said Deutsche Babcock planned to halve its loss in the year to September 30, and aimed to break even in 1997-1998. He promised drastic cuts in the group's management structure and a reduction from eight to three in its production divisions, which will leave Deutsche Babcock focusing on machine building, systems technologies and power plant and environmental technology.

Deutsche Babcock is reviewing non-core activities with annual sales of between DM800m and DM1bn to determine whether they should be sold. Staff numbers have been cut from 32,300 last September to 29,300 at the end of last month.

Mr Lederer, an engineer, joined Deutsche Babcock after heading the European automotive activities of ITT Industries. He also worked for AEG Telefunken, the now-defunct electrical and electronics group, BMW, the carmaker, and Heidelberger Druckmaschinen, a manufacturer of printing machinery.

He replaced Mr Heyo Schmiedeknecht, chief executive of Deutsche Babcock since 1990.

Viasa rescue faces collapse after state aid is refused

By Raymond Colitt in Caracas

Attempts to rescue Viasa, the Venezuelan national airline, seemed close to collapse last night.

The state privatisation agency Fondo de Inversiones de Venezuela, which has a 40 per cent stake, ruled out putting any more money into the airline. Instead Mr Alberto Poletto, the agency's head, has recommended that Viasa – whose principal shareholder is the Spanish airline Iberia – be shut down.

A final decision will be taken shortly by president Rafael Caldera.

The airline, which ceased flying on January 23, had an estimated loss of $30m last year and has not made a profit since Iberia took over the management and acquired a 45 per cent stake in 1991.

The Venezuelan Banco Provincial has 15 per cent.

"The decision of the national government is very clear. We are not going to capitalise Viasa. The company is very deteriorated and its liabilities are very large," Mr Poletto said. "Under such circumstances it would be irresponsible for the Venezuelan state to make any kind of capital contribution."

An amiable liquidation agreement was being sought with Iberia to reduce the social impact of closure.

Potential redundancy costs are estimated at $20m. In Caracas Iberia said it would assume its share of the costs. The Spanish airline has insisted it has done everything possible to avoid Viasa's shutdown.

Mr William Bracho, a Viasa labour representative, said employees would seek to form another airline if Viasa went into liquidation.

While the government has shown interest in maintaining a flag carrier airline, Mr Teodoro Petkoff, planning minister, said that it would not contribute towards a new company.

The FIV and Iberia had reached agreement in principle at the end of last month to keep Viasa afloat, but recent audits revealed total liabilities far beyond what was originally thought. Viasa had claimed its total debt was $130m.

Marriott outbids rival with $1bn deal for Renaissance

By Tracy Corrigan in New York

Marriott International, the US hotels group, is to pay $1bn for Renaissance Hotel Group, outbidding a rival offer from Doubletree.

The agreed deal is the latest sign of consolidation within the international hotels business. It follows the launch last month by Hilton Hotels of a $6.5bn hostile bid for ITT.

Mr J W Marriott Jr, Marriott chairman, said the deal with Renaissance would "more than double our presence outside of the US".

At the end of last year, Marriott had nearly 230,000 rooms globally but only 20,000 outside the US, according to Mr William J Shaw, who will take over as chief operating officer of Marriott International in March.

Renaissance has about 30,000 rooms outside the US, including its New World hotels in the growing Asian market. It also owns the Renaissance chain of international business and leisure hotels and Ramada, a mid-priced brand outside north America.

New World Development Company, the Hong Kong-based real estate company which owns 53 per cent of the voting stock of Renaissance, has accepted Marriott's offer of $30 cash per share.

Marriott said that it expected to begin a tender offer for all outstanding Renaissance shares within five business days.

The deal supersedes a cash-and-stock agreement between Renaissance and Doubletree last month that valued Renaissance shares at $26.67 at Doubletree's then share price of $43. Renaissance shareholders were to have received $8 in cash and 0.4342 Doubletree shares per Renaissance share.

Doubletree said it would not pursue the acquisition. But under the the memorandum of understanding signed with Renaissance, it would receive a break-up fee of $15m.

Marriott aims to complete the acquisition by the second quarter of 1997.

Investors welcome Swedbank merger

By Hugh Carnegy

Shares in Swedish banks soared yesterday as two of the country's biggest confirmed they were to merge and results from the sector showed record profits in 1996.

Swedbank – known domestically as Sparbanken – said it had agreed to merge with Föreningsbanken, controlled by the Swedish farmers' confederation, to form the country's second-largest banking group with combined assets of SKr619bn ($83.36bn) and a joint market capitalisation of more than SKr40bn.

The two reported record earnings for 1996, as did rivals Svenska Handelsbanken and Nordbanken. The other leading bank, Skandinaviska Enskilda Banken, reported record profits last week.

Investors greeted the merger and the jump in earnings with enthusiasm. They expect further profits strength and are betting that SE-Banken and Nordbanken will complete the restructuring round by resuming merger talks they broke off last month.

Mr Hans Dahlborg, chief executive of Nordbanken, said his door remained open for discussions on a merger that would create the biggest Swedish bank. That position is now held by Handelsbanken, which led the way in December by buying Stadshypotek, Sweden's leading mortgage lender.

Shares in Swedbank showed the biggest gains yesterday, jumping 17 per cent from their close last week when trading resumed in mid-afternoon. By the close they were up SKr20 at SKr139.50. Föreningsbanken's most-traded A shares rose 12 per cent, closing up SKr4.70 at SKr48.20. Nordbanken also raced ahead, gaining SKr20 to close at SKr255, while Handelsbanken A shares rose SKr6.50 to end at SKr207.50.

The newly merged bank – to be called FöreningsSparbanken – will be Sweden's market leader in most private retail banking services, including deposits and lending, with 5m clients; joint income of SKr21bn and pro-forma operating profits in 1996 of SKr6.4bn. Its main customers will be private individuals, farmers, small and medium-sized companies and municipalities.

The merger will be completed by Sparbanken – which is much bigger than its partner – exchanging two newly issued shares for every seven Föreningsbanken A shares and one new share for every three Föreningsbanken B shares. Also, Föreningsbanken will pay an extra dividend of SKr4 a share to holders of its A shares.

The two sides said the merger was driven by intensifying competition in financial services, the cost of technological change and growing internationalisation.

The principal gain will come from projected synergy savings of at least SKr1.5bn a year – or SKr3 a share – from 2000 through a cut of at least 2,000 in their combined staff of 13,000. There is considerable overlap in their joint network of 1,100 branches.

Both banks come to the deal on the back of sharply improved performances last year. Swedbank reported a 20 per cent rise in operating income from SKr4.4bn in 1995 to SKr5.3bn, its best result since it was formed in 1992.

Föreningsbanken said it also achieved record profits, with an increase in operating earnings from SKr1bn to SKr1.16bn. Both partners benefited from a big fall in loan losses and a big rise in commission income.

However, net interest income was flat because of low loan growth and narrowing margins between deposit and lending interest rates. The lack of market growth has been a factor behind the rationalisation.

Confirming the improved earnings trend, Handelsbanken said its operating profits rose 33 per cent in 1996 from SKr5bn in the previous year to SKr6.7bn, while Nordbanken reported a 10 per cent increase from SKr4.9bn to SKr5.4bn.

Sharp fall at Usinor Sacilor

By David Owen in Paris

Usinor Sacilor, Europe's biggest steel maker, yesterday reported sharply reduced annual income while indicating it expected to do better this year.

The French company, privatised less than two years ago, said net profits in 1996 slid two-thirds to FFr1.5bn ($261m) from FFr4.4bn a year earlier. This was on turnover of FFr71.1bn, against FFr78.4bn in 1995. Net income per share fell more than 70 per cent from FFr20.87 to FFr6.12.

The downturn prompted the group to cut its dividend from last year's FFr4 a share to FFr3, which it said was equivalent to 49 per cent of net profit.

In spite of its difficult year, the group – which said last week it was keen to invest in Corporación Siderúrgica (CSI), of Spain – cut net debt from FFr11bn to FFr6.5bn. Mr Francis Mer, chairman, said the results demonstrated the "capacity of resistance" the group had built up.

Analysts said the figures were somewhat better than expected and the shares rose FFr2.70, or 3.2 per cent, to FFr87.20 on a declining Paris market. Mr Alain Kerfourn, an analyst with Cholet-Dupont in Paris, said he had the impression 1996 would be the low point for the group's results. But he said his current 1997 projection of FFr2.5bn at the net income level was "not at all assured".

The company said European demand for stainless steel and flat carbon products was starting to recover and that prices, although still low, were beginning to pick up, particularly for galvanised products.

Mr Mer indicated the recent revaluation of the dollar was also helping the company. He described it as "a happy surprise" that should help to put some "butter on our spinach".

He acknowledged, however, that end-of-year discussions on the renewal of annual contracts had been "difficult", especially those with European carmakers. The group had been obliged to concede some price cuts.

On CSI, Mr Mer confirmed Usinor's interest and said that, if the Spanish government confirmed its intention to privatise, the group would seek to "play a role" that met both its and the Spanish company's interests.

He also confirmed the company was considering a possible change of name, although this was a delicate subject that touched on the whole history of the group.

Francis Mer: dollar devaluation 'butter on our spinach'

Scania earnings tumble in final quarter of 1996

By Hugh Carnegy in Stockholm

Scania, the Swedish heavy truckmaker, yesterday reported a plunge in profits in the last three months of 1996. This is the second quarter in a row that profits have fallen. It also warned it expected a significant fall in demand this year in Europe, its main market.

Pre-tax earnings tumbled from SKr1.3bn in the fourth quarter of 1995 to SKr564m ($75.95m) as Scania was hit by adverse currency movements and the continuing effect of delays in the introduction of its new 4-series truck.

The figure would have been even lower but for an unexpected one-time gain of SKr400m from a favourable tax settlement in Argentina.

The result followed a fall in profits to just SKr40m in the third quarter and left full-year pre-tax earnings down 44 per cent from SKr4.8bn in 1995 to SKr2.7bn. Earnings per share for the full year fell from SKr16.40 to SKr9.90.

The sharp reverse has caused some embarrassment as it followed shortly after Investor, the main Wallenberg family investment vehicle, floated a 55 per cent stake in Scania on the Stockholm and New York stock markets.

Yesterday's news prompted a SKr5 fall in Scania's most-traded B share, to SKr191, but the price remained well above the SKr180 issue price.

Scania sales over the year were relatively stable. Turnover fell from SKr34.8bn to SKr33.7bn, but was up slightly excluding currency effects. The number of trucks and buses sold fell from 44,637 to 42,991. But Scania said it had increased its market share in western Europe from 14.3 per cent to 15.5 per cent.

The company's main problems – aside from currency shifts – arose from delays in the phasing of the 4-series truck, which has now been completed. Changeover production expenses rose to SKr650m – compared with projections of SKr500m – and there was a further SKr290m charge to cover personnel reductions.

Mr Leif Ostling, chief executive, said output levels of the 4-series were now up to capacity. But he said it would still take some months to reach maximum productivity.

Meanwhile, he warned that Scania expected demand for heavy trucks in Europe to fall from 172,000 in 1996 to around 160,000 this year, a development which would put pressure on prices.

EUROPEAN NEWS DIGEST

Crédit Lyonnais sells Swedish unit

Crédit Lyonnais, the French state-owned bank, yesterday announced the sale of Crédit Lyonnais Bank Sverige, its Swedish retail operation, to Trygg Banken, the banking subsidiary of the insurance group Trygg Hansa. The move follows its sale of other retail banks and is part of the bank's strategy, ahead of privatisation, of refocusing its business outside France on wholesale banking.

During 1995, Crédit Lyonnais sold its retail operations in Argentina, Brazil, Chile, Peru and the Philippines, as well as CLBN in the Netherlands. Last year, it sold its banks in Tahiti and a regional bank in Haute Savoie in France. The bank stressed it would still provide services to large Swedish and international corporate customers through Crédit Lyonnais Bankfilial, a subsidiary created in 1993, which also covers Norway and Finland. This would specialise in export financing and treasury management advice, the bank said. It said yesterday's sale would have no affect on the group's 1997 accounts, suggesting the Swedish unit was sold at near its accounting value. The price is believed to have been about FFr90m ($15.8m).

Crédit Lyonnais Bank Sverige, created in 1986, employs 27 staff and reported total assets of FFr1.4bn at the end of last year, with banking income of FFr26m and net profit of FFr8m. Sales of other European subsidiaries of Crédit Lyonnais are expected over the coming months as part of a restructuring and recapitalisation plan.

Andrew Jack, Paris

Vobis static despite sales rise

Vobis Microcomputer, the German computer retailer, yesterday announced that last year's pre-tax profit would probably be close to the DM50m ($29.4m) reported for 1995, which itself was unchanged from the previous year.

Turnover, however, increased from DM3.09bn in 1995 to DM3.3bn in 1996. The company, which is 58.5 per cent owned by the Metro retail and trading group, said it was the leading vendor of personal computers in Germany.

Peter Norman, Bonn

Scottish bank sells Swiss arm

Royal Bank of Scotland has agreed in principle to sell its 100 per cent interest in its Swiss operation, The Royal Bank of Scotland AG, Zürich, which had assets of SFr 42m ($28.71m) on September 30, to Banque de Depots, Switzerland. Royal Bank of Scotland said the impact of the transaction on future earnings and net assets would not be material. The sale is subject to contract and regulatory approvals.

AFX News, London

Derivatives advice available

Educating corporate treasurers and company directors has become a top priority for the UK's Association of Corporate Treasurers as a result of the fast growth in derivatives usage by large companies. The association's latest publication comprises 14 case studies of treasury actions where the use of derivatives was a main factor. The ACT presents some innovative uses of derivatives, such as the elimination of the effects of differences in inflation rates between countries or the protection of pension funds during transitions – for example during a change in fund manager. *Samer Iskandar, London*

Uses of Derivatives. £15 (£7.50 for students and ACT members). Association of Corporate Treasurers, Ocean House, 10/12 Little Trinity Lane, London EC4V 2AA.

Ciba paints upbeat picture

Presentations ahead of flotation stress group's promising future

If Ciba Specialty Chemicals were to be awarded marks for putting the best public relations spin on a corporate spin-off, then the way it is handling its emergence from Novartis, the combination of pharmaceuticals groups Ciba and Sandoz from last December, would score highly.

Ciba Specialty Chemicals

	Sales 1996 (SFr bn)	Estimated market share (%)	Global position	Operating margin* (%)
Additives	[illegible]	[illegible]	[illegible]	[illegible]
Performance polymers	1,622	21.9	1 (core segments)	[illegible]
Textile dyes	[illegible]	[illegible]	[illegible]	[illegible]
Consumer care chemicals	1,108	14.6	[illegible]	[illegible]
Pigments	[illegible]	[illegible]	[illegible]	[illegible]

Source: Ciba Specialty Chemicals *Earnings before interest and tax as a percentage of 1996 sales

The Swiss company has been plodding along in the shadow of its pharmaceutical sisters within Ciba for years. Its sales have been stuck in the range of SFr6.5bn to SFr7.1bn ($4.4bn-$4.8bn) for the last four years. Net profits have hovered between SFr300m and SFr350m.

Yet until Clariant, another Swiss speciality chemicals manufacturer, took over Hoechst's speciality chemicals operation last December, Ciba was the world's biggest by sales, in a SFr100bn market.

Even now it is number two, and the world leader in areas ranging from additives to performance polymers and pigments. In textile dyes, its most traditional business, it is number two.

It employs more than 20,000 people and operates 58 manufacturing sites in 29 countries. But in spite of its undoubted commercial strength and famous name, its margins are below average, and it has a history of squandering too much money on investment.

Nevertheless, yesterday the company was intent on stressing its promising future as it gave financial presentations in Zurich and London, in preparation for its flotation next month. It has also equipped itself with a colourful butterfly logo to symbolise its "global reach, business agility and environmental responsibility".

Injecting a bit of glamour into a dull business like speciality chemicals requires a certain knack, especially when the three most profitable parts of the business are about to report lower profits.

Mr Rolf Meyer, Ciba chairman, and Mr Hermann Vodicka, chief executive, both newly appointed from other roles within Ciba, rose to the occasion.

The Egyptian kings may have built ancient temples like Abu Simbel and the Romans built the Segovia aqueduct in Spain; but it is products like Ciba's Araldite that keep them glued together, they pointed out.

But on more up-to-date financial information, Ciba's repertoire was thin. It has not provided profit figures for 1996, let alone given an earnings and dividend forecast for 1997.

It is taking a hefty SFr1.1bn restructuring charge, so it will probably report a net loss of around SFr500m for 1996.

Nevertheless, with SFr1bn of debt and SFr4bn of equity, the balance sheet is in good shape. Analysts appear willing to bet that Mr Meyer can use it to enhance shareholder value, rather than the size of his company.

The current year will be clouded by further restructuring costs. But by 1998 these should be producing an extra SFr150m a year of income.

Analysts are talking about net income of around SFr500m in 1998 and earnings per share of between SFr7 and SFr8. The company plans to pay out up to 25 per cent of its earnings.

Based on an indicative price of around SFr80 for the global offering, that gives a prospective price/earnings ratio of 10 times – cheap by comparison with Clariant, which is trading at around 15 times 1998 earnings.

This factor, when combined with the potential for substantial margin improvement, and unusually highly incentivised managers, explains why Ciba's stock market debut should go well.

Ciba's top managers have to invest their entire first year's salary in Ciba stock. No one, least of all they, has any interest in the shares being launched at an unsustainable price.

Moreover, the timing could not be better. The strength of the Swiss franc, which has dented earnings over the last few years, has evaporated. This will do wonders for a company with 28 per cent of its costs in Swiss francs and more than 90 per cent of its sales in other currencies.

Meanwhile, Mr Meyer and his team have done a good job convincing analysts they can run Ciba Specialty Chemicals much better than it has ever been run before. As one veteran analyst put it yesterday: "If they cannot deliver the goods now, when can they do it?"

William Hall

Bull sees state holding falling below 20%

By David Owen

Groupe Bull, the French computer company, yesterday reported its second consecutive annual profit, while indicating the French state's holding could fall below 20 per cent by the year-end.

It indicated it was keen to improve the liquidity of its shares by lifting the proportion publicly traded to 15 per cent from 3.4 per cent at present. Mr Jean-Marie Descarpentries, chairman, said this could be achieved either by the sale of part of the state's remaining stake, an increase in capital, or a combination of the two.

The state's holding stands at 30.5 per cent, with a further 18.7 per cent held by France Telecom, the state-owned telecoms operator expected to be partially privatised this year.

It was only last November that the government said it was to sell at least 5 per cent of Bull's capital, taking public-sector ownership to below 50 per cent. Other large shareholders include NEC of Japan and US-based Motorola, each with 18.7 per cent.

The gradual privatisation of the computer group, via the entry in two stages of a number of industrial shareholders as investors, is being held up by some ministers as a possible model for future privatisations.

Propelled by a buoyant second half, the group yesterday reported net profits of FFr376m ($65.57m) – up 23 per cent from the FFr306m achieved in 1995.

This was in spite of a non-recurring loss of FFr661m linked to the restructuring of personal computer production in the first half of last year. The group said the PC business generated positive operating results in the second half.

Revenue slipped from FFr24.53bn to FFr24.06bn, while operating profit fell from FFr849m to FFr780m. Return on capital employed edged down from 9.8 per cent to 9.4 per cent. The company said it was aiming for a further strong improvement in net income in 1997.

The shares climbed more than 10 per cent to FFr45.20.

Brahma falls 21% despite higher sales

By Geoff Dyer in São Paulo

Heavy investment in new capacity led Brahma, the biggest brewer in Brazil, to announce a 21 per cent drop in annual net profits despite a modest increase in sales.

Brahma said profits had been held back by exceptional charges, including the R$45m (US$42.9m) start-up cost for its the Nova Rio brewery, the largest in Latin America, and by a 25 per cent rise in the price of malt.

Consolidated net profits in constant money were R$217.1m, against R$273.3m. Under the figures required by Brazilian corporate law, which do not take into account changes in inflation and exchange rates, net profits fell from R$257.4m to R$170.6m.

The Brazilian government requires companies to publish the unadjusted figures as part of its anti-inflationary strategy of removing automatic indexation from the economy. The profit figures do not include a one-off gain of R$154.3m resulting from a change in the group's capital structure.

Turnover in constant money rose 5 per cent from R$4.82bn to R$5.07bn in 1996, while under company law figures for sales were R$4.92bn against R$4.03bn.

The rise in turnover was helped by an 18 per cent increase in the sales of soft drinks, particularly the new brand of Guaraná, which was introduced last year.

Sales also grew strongly in Argentina, where Brahma said it now had a 14 per cent share of the beer market, just two years after starting its operation there.

Last October the group launched a number of soft drink brands in the Argentine market.

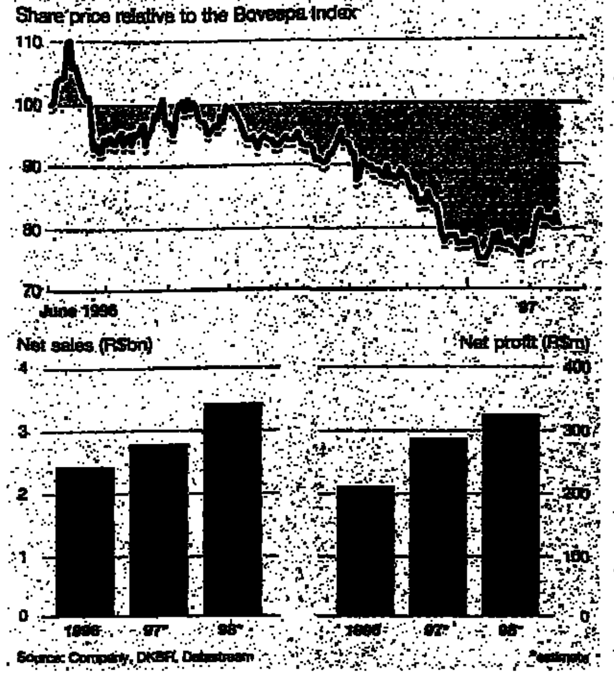
However, Brahma said sales had been affected by unusually poor weather over the year, with 60 per cent of weekends suffering from rain or low temperatures.

Through its partnership with Miller Brewing, of the US, Brahma introduced Miller Draft beer to the Brazilian market last year. It also concluded an agreement with Carlsberg, of Denmark, to produce Carlsberg beer in Brazil, and acquired the rights for Skol beer for the whole of Latin America.

Brahma said it was optimistic about the prospects for 1997 as a result of the new capacity it had available. In addition to the Nova Rio plant, which can produce 13.8m hectolitres of beer a year, the company has new breweries in Sergipe and Rio Grande do Sul.

The company said it would continue its policy of buying back shares. Earnings per 1,000 shares jumped 27 per cent from R$39.70 to R$50.80, and the recommended dividend per 1,000 shares is R$10.90.

Brahma: profits in the pipeline



Source: Company, DKBR, Datastream *estimate

Viacom to sell radio stations in $1bn deal

By Christopher Parkes in Los Angeles

Viacom, the US entertainment and media group, is to sell its radio stations for $1bn in a three-cornered deal which will create the largest "pure" radio broadcasting company in the US.

The 10 Viacom stations, all concentrated in the nation's largest urban markets, will be absorbed into a new group, Chancellor Media Corporation, which will own 103 stations and have annual revenues of more than $700m.

The agreement to form Chancellor – a combination of three-year-old Chancellor Broadcasting and Evergreen Media, a nine-year-old concern – was forged by Hicks, Muse, Tate & Furst, a Dallas-based leveraged buy-out specialist.

The stock-swap merger was expected to be tax-free and completed in the third quarter of this year, the companies said, and would be followed by the cash purchase of the Viacom businesses.

Viacom, which has been under pressure from Wall Street to strengthen its balance sheet and which had been expected to dispose of its radio stations, said it would use the proceeds to reduce group debt.

Mr Sumner Redstone, Viacom chairman and chief executive, said the sale was an important step towards a stronger balance sheet and a sharper focus on core operations.

The group, which owns the Paramount film studio and leading cable television networks such as MTV and Showtime, is currently restructuring Blockbuster, an international video rental and retail business, which had become bogged down in the slow-growth US market.

The price for yesterday's deal, which fell in the expected range, reflected the keen interest in radio, highlighted by last year's $3.9bn purchase by Westinghouse Electric of Infinity Broadcasting's 44 stations. That deal, central to Westinghouse's plan to convert into an entertainment concern under the CBS umbrella, boosted its station total to almost 80 and annual radio revenues to about $1bn.

Chancellor Broadcasting, which started its purchases in early 1994, made its first big buy in mid-1995 when it bought 19 stations from a Disney family concern for $395m. Earlier in the same year Evergreen paid $306m for 12 stations owned by Pyramid Communications.

Evergreen currently owns or is in the process of acquiring 42 stations in 11 markets, while Chancellor has 51.

The catalyst for the consolidation of the fragmented radio industry was deregulatory legislation, enacted in early 1995, which raised the limit on the number of radio stations a single owner could operate in a single market from four to eight.

Fiedorek to be Morgan Stanley vice-chairman

By Tracy Corrigan in New York

Morgan Stanley, the US investment bank which this month agreed to merge with brokerage Dean Witter, has appointed Mr Bruce Fiedorek to a new senior position of vice-chairman.

Mr Fiedorek, who has been running the company's mergers and acquisitions business, will be responsible for some of its most important client relationships in his new role, and will continue to be actively involved in the development and execution of Morgan Stanley's mergers and acquisitions business, according to the company. He will work closely with Mr Dick Fisher, chairman, and Mr John Mack, president.

Morgan Stanley said the move was related to a management restructuring last month, which split the business into two main areas, securities and asset management. These businesses will be run by Mr Peter Karches and Mr James Allwin respectively, also in newly-created positions.

At the time, Mr Mack said a new structure was needed to reflect the growing size and complexity of the company. But the creation of a number of senior positions within the group, just ahead of the merger with Dean Witter, may also suggest that Morgan Stanley's top executives are jockeying for power.

In the earlier reshuffle, another M&A executive, Mr Joseph Perella, was promoted to head of investment banking, effectively leapfrogging Mr Fiedorek.

Mr Perella founded M&A boutique Wasserstein Perella in 1988 with former CS First Boston colleague Mr Bruce Wasserstein. He joined Morgan Stanley in 1993.

Replacing Mr Fiedorek, Mr Bill Lewis and Mr Gary Parr have been appointed co-heads of the M&A business and will report to Mr Perella.

In another change, Mr Peter Karches has appointed Mr Steve Newhouse as his deputy, to help him run the securities business. Mr Bill Kourakos will take over Mr Newhouse's position as head of global high yield capital markets.

AMERICAS NEWS DIGEST

Conseco ahead of forecasts for year

Conseco, the acquisitive Indiana-based life assurance holding company which has bought 22 life companies in the past decade, announced results for 1996 ahead of analysts' expectations yesterday, but suffered a sharp drop in its share price as profit-takers moved in.

Total profits for the year were $252.4m, up from $220.4m in 1995. For the final quarter they were $77.9m, including an extraordinary $7.9m charge for the early retirement of debt, up from $52.6m in the equivalent quarter of 1995, when the company benefited from the $12.2m sale of its investment in Eagle Credit. The operating earnings per share figure for the quarter was 54 cents, 2 cents ahead of consensus expectation. The stock gained on the news, but then fell, and at noon were down $1⅜ at $40¼.

Mr Stephen Hilbert, chief executive, made a bullish presentation, predicting that the company was on track to equal or exceed analysts' forecasts for earnings per share of between $2.50 and $2.75 for this year.

He is expecting to cut annual overhead expenses by at least $80m, as part of Conseco's strategy of buying life assurance companies and consolidating their administrative operations. *John Authers, New York*

USAir will not buy BA's stake

USAir said it would not exercise its right to buy back British Airways' 24.6 per cent stake in the US carrier. British Airways said it still planned to sell the stake. USAir declined to comment on whether it decided against buying the shares or was restricted by a Delaware Capital Surplus law which limits share repurchases unless a company meets certain capital surplus requirements.

While BA is now free to sell its stake in private transactions or a public offering, it is restricted from selling the shares in one lump. Under an agreement with USAir, BA cannot sell its stake to any entity that would gain more than 5 per cent of USAir's stock. BA said in December it planned to sell its 24.6 per cent stake in USAir at a premium to its original investment of $400m. Three of BA's directors resigned from the USAir board in January as the two carriers continued to dismantle a turbulent relationship that began in 1993.

BA and USAir began feuding publicly last summer after BA proposed a broad alliance with AMR's American Airlines. USAir sued BA in July, alleging the proposed BA-American deal undermined the existing relationship between USAir and BA. USAir also contends that the proposed deal would allow BA and American to monopolise air travel between the US and Britain. *Reuter, New York*

Banco Itaú posts 57% rise

Banco Itaú, Brazil's second-biggest bank, provided further evidence of the improved fortunes of the largest banks in Brazil when it announced yesterday a 57 per cent increase in net profits in 1996. Net profits rose from R$384m to R$602m (US$574m), while shareholders' equity advanced 16 per cent from R$3.46bn to R$4.02bn. Itau said its return on equity was 15 per cent last year. The figures follow strong profits earlier this month from Bradesco, the country's biggest bank.

The bank did not disclose the reasons for the rise in profits but said that the highlight of its lending business had been the increase in home loans, while its new Argentinian operation now had 18 branches. The number of current accounts at the bank rose 9.4 per cent to 3.9m.

Itaú said its financial strength was shown by its capital adequacy ratio of 20.9 per cent. *Geoff Dyer, São Paulo*

WMX chief executive resigns

Mr Phillip Rooney, chief executive officer and president of US waste management company WMX, has resigned, citing frustration with "public debate over the leadership of the company". Mr Dean Buntrock, chairman, will serve as acting chief executive.

Mr Rooney said he had listened carefully to shareholders who believe WMX must carry out its current programme to focus on its core waste management business. An investment fund controlled by financier Mr George Soros last week called for Mr Rooney to leave. The Soros group and other large shareholders of WMX have been pressing the company for months to improve its performance and make changes.

"I am not prepared to let personal attacks distract this company from this important mission," Mr Rooney said. He added that he strongly believed in the restructuring plan announced earlier this month, which includes plans to sell $1.5bn of assets over the next two years, and repurchase 10 per cent of company's stock.

Mr Rooney had been chief executive of WMX, the largest US garbage hauling company, since June 1996. He had previously been chief operating officer from 1984 to 1996. *AP-DJ, New York*

Bre-X shares slip

Shares of Bre-X, the Calgary-based exploration company that has agreed a joint venture with Freeport-McMoran Copper and Gold to develop its Busang gold deposit in Indonesia, lost C$2.30 at midday in Toronto yesterday to C$20.70. According to one analyst, the selling came mainly from US arbitrageurs whose hopes of a quick profit from a bidding war had evaporated. However, he said the price would be supported by anticipation of a later bid for Bre-X. Meanwhile, shares in the Indonesian state-controlled tin miner Tambang Timah closed down more than 8 per cent in Jakarta following official confirmation from the Indonesian authorities that the company would not be included in development of the huge Busang gold find in east Kalimantan.

Bernard Simon and agencies, Toronto

Massey quits CompuServe post

CompuServe, the US computer group, said Mr Robert Massey has resigned as president and chief executive officer. His duties will be assumed on an interim basis by Mr Frank Salizzoni, chairman, who is also president and chief executive of H&R Block which owns about 80 per cent of CompuServe.

Mr Salizzoni said: "Our goal remains a speedy and sustained turnaround at CompuServe, and under Bob's leadership, the company has made progress in that direction."

A search is under way for a replacement for Mr Massey, according to Mr Salizzoni. Until then, Mr Salizzoni will divide his time between CompuServe and H&R Block. *Reuter, Ohio*

THE AMERICAS

Conseco ahead of forecasts for year

German banks' profits advance

By Andrew Fisher in Frankfurt

Two of Germany's biggest banks, Deutsche Bank and Bayerische Vereinsbank, yesterday reported sharp increases in operating profits for 1996, but Deutsche managed only a small rise in net income compared with Vereinsbank's stronger advance.

Analysts said the discrepancy mainly reflected Deutsche Bank's problems with its UK fund management operation, Deutsche Morgan Grenfell Asset Management (MGAM), which have resulted in large compensation. While Deutsche Bank's net income was only 5 per cent higher at DM2.2bn ($1.29bn), Vereinsbank managed a jump of some 30 per cent from the 1995 level of DM657m, although it gave no figure.

Vereinsbank, which produced an unprecedently comprehensive set of figures at this early stage in the reporting season, said its operating profits after risk provisions were 18 per cent higher at DM1.6bn. It announced a 10 pfennig rise in the dividend to DM1.60 a share. Mr Albrecht Schmidt, chairman, also said 1997 had begun well.

Deutsche Bank, Germany's biggest bank, said its operating profits moved up 37 per cent to DM5.8bn. Total assets rose 23 per cent to DM886bn, mainly reflecting the greater volume of financial trading related to investment banking. Loan volume was 8 per cent higher at DM410bn, with customer deposits up by 25 per cent to DM375bn.

Although Deutsche Bank did not elaborate on its figures, analysts said MGAM's difficulties weighed down net profits. The bank paid £180m ($290m) to support three MGAM unit trusts which ran into valuation problems after unauthorised investments in unlisted companies. Deutsche Bank also paid out £200m in compensation to investors.

Since Deutsche Bank's operating profits were above expectations, its shares gained 62 pfennigs to close at DM85.10 in floor trading. Vereinsbank shares, however, eased 47 pfennigs to DM63.50. Commerzbank has already released initial 1996 figures, with Bayerische Hypotheken- und Wechsel-Bank and Dresdner Bank also reporting this week.

At Vereinsbank, Mr Schmidt said performance – which accelerated in the fourth quarter – reflected a 7 per cent rise in net interest income to DM4.8bn, a more pronounced 14 per cent jump in commission income to DM1.2bn and trading income of DM250m which was just short of the 1995 figure.

The bank also curbed its costs, which have risen considerably in recent years.

Playing Russian roulette with Gazprom

Hong Kong investment group tiggers legal battle over share price differential

Foreigners can expect to pay five times more than local Russian visitors to look round St Basil's Cathedral in Moscow's Red Square. The same principle applies to many aspects of Russian life, including, it seems, the country's rapidly developing capital markets.

But an attempt by Gazprom, Russia's giant gas monopoly, to maintain differential pricing in its shares is provoking a controversy in Moscow.

Gazprom is in the extraordinary position of trying to force one of its most enthusiastic shareholders, Regent Pacific Group, the Hong Kong-based investment group, to dump some of its shares in the company.

Mr Rem Vyakhirev, Gazprom chairman, wrote to Regent this week urging it to liquidate its Regent Gaz Investment Company, which has attracted $200m of foreign capital specifically to invest in Gazprom's domestic shares, describing it as a "threat to national security". Regent has made no public response to the letter.

Brendan Corr

Rem Vyakhirev, Gazprom chaiman, is urging Regent Pacific to liquidate the company set up to buy domestic shares

Gazprom's lawyers are said to be working overtime on legal arguments to stop Regent. But western bankers say that even if they are successful, the legal case employed may be too narrow and specific to deter others seeking ways to exploit the price differential. "Whatever solution is found must serve as a precedent to deter others," said an executive with one US bank.

The dispute arises from the placement last October of 1.15 per cent of Gazprom's equity with international investors. The shares, which were bundled into readily-tradeable American Depositary Receipts, were priced at four times the price of domestically-traded equity. Given the offering's novelty value, the shares were quickly snapped up.

Morgan Stanley and Dresdner Kleinwort Benson, the investment banks managing the Gazprom issue, argued that international investors were paying a premium for liquidity, security and more favourable tax treatment.

There was an extremely illiquid market for Gazprom's shares within Russia – largely because the company can veto any share purchases – and tax obligations were more onerous.

With one-third of the world's known gas reserves, Gazprom was also deemed one of Russia's strategic assets and was restricted to selling 9 per cent of its shares to foreigners. So a strict line had to be drawn between international and domestic shareholders.

Nevertheless, some aggressive western fund managers have been buying domestic shares in the hope of exploiting the theoretical arbitrage possibilities in future – even though Gazprom has warned their shares may never be registered.

It is an open secret that Moscow-based investment banks have been establishing Russian-registered companies to buy domestic shares on behalf of foreign clients and claim to have received the nod and the wink from Gazprom permitting them to do so.

There are also rumours in Moscow – furiously denied by the company – that Gazprom managers themselves have been among the beneficiaries of the potential arbitrage play. There would certainly appear to be a tacit coalition of interests between the company and these foreign investors, given the lack of domestic liquidity.

"Over time the differential between the two shares will have to narrow. The arbitrage is simply too great," says one market analyst. But it is clearly in everyone's interests for the local shares to go up rather than ADRs to come down. If you are Gazprom management, you want the local price to go up. If you are a domestic shareholder, you want the same. And the ADR investors certainly do not want to lose money on their investment."

The danger for Gazprom would be that, if too many foreign investors thought they could safely switch from the ADRs into the underlying domestic shares, the price of the international shares would fall, complicating subsequent share sales.

In this sense, Regent's mistake may have been that its fund was simply too big and too public. Regent itself claims it discussed its plans with Gazprom before launching its fund although the company denies it approved the scheme.

Regent has a reputation as an aggressive fund manager and would not appear inclined to back off. But it may have little option.

It would not be wise to antagonise so powerful a company as Gazprom, especially when you are one of the biggest portfolio investors in Russia.

John Thornhill

Telefónica shares steady at Pta3,365

By Tom Burns in Madrid

Telefónica shares held steady in high turnover yesterday on their first day of trading on Madrid's Bolsa after the privatisation of the telecoms company.

The shares closed at Pta3,365, slightly up from Monday's close of Pta3,360 – which was also the issue price to international institutions.

After discounts to the retail tranche, to employees and to the company pension fund, the disposal of the government's remaining 21 per cent stake in the telecoms operator is thought to have raised some Pta627bn ($4.36bn) and generated costs in commission fees and advertising of Pta20.6bn.

The sale – the first market privatisation of a large Spanish company and by far the biggest disposal of government equity – has turned Telefónica into the pre-eminent stock on the domestic equity market, representing 11.4 per cent of the Bolsa's capitalisation.

Telefónica is now estimated to have more than 1m individual shareholders, nearly double the number it had before the privatisation, and at least five times more than any other company listed on the Bolsa.

Strong demand in the retail tranche, which was nearly 10 times oversubscribed, allowed Telefónica to spread its shareholder base widely, but also very thinly, leaving a great deal of small domestic investor interest unsatisfied.

A last-minute decision to lift the retail tranche, which carried an issue price of Pta3,239, from 60 per cent to 67 per cent of the initial offering meant that the company was able to award all the 1.2m Spaniards who had applied for the stock at least 100 shares.

All bids in excess of 100 shares were allocated 1.9 per cent of the excess shares ordered.

The unsatisfied demand augurs well for forthcoming Spanish privatisations which, following the success of the Telefónica disposal, are expected to be similarly weighted towards the home market.

The government is scheduled to sell the remaining 10 per cent it owns of Repsol, the energy group, in April. It also plans to sell about 25 per cent of Endesa, the power generator, towards the end of the year.

INTERNATIONAL NEWS DIGEST

NCC in SKr2.5bn paper bid for Siab

Swedish group NCC yesterday launched a SKr2.5bn ($337m) bid for Siab in a deal which would create a construction and property company with turnover of SKr33bn a year. The offer, of four new NCC shares for seven of Siab's, represents a 28 per cent premium on the Siab average share price between February 3 and February 14.

Siab's board has recommended that shareholders accept the offer. The two largest shareholders, which together control more than 70 per cent of the equity, are the Lundberg companies and Swedish bank Sparbanken's funds group. Both have reacted positively to the bid.

The merger will create a company with 23,000 employees and real estate holdings worth some SKr17bn. Recommending acceptance of the offer, Mr Fredrik Lundberg, Siab board chairman, said: "The merger is good for Siab shareholders and workers." The companies said synergy factors would add SKr200m–SKr300m a year to earnings, and were expected to feed through from 1998, after an estimated SKr300m in merger costs in 1997.

Yesterday's offer from NCC is part of a refocusing on real estate and construction which started with its creation in 1991 through the merger of NCC and Nordstjernan.

AP-DJ, Stockholm

Philipp Holzmann upbeat

Philipp Holzmann, Germany's largest construction company, yesterday said it expected lossmaking units to return to profit by 1998 at the latest, after registering a sharply improved performance at group level last year. Holzmann broke even in 1996 after a reporting a surprise DM443m ($261m) loss a year earlier, mainly due to property market problems.

Preliminary figures for 1996 showed construction output was flat at about DM14bn, while foreign demand helped lift new orders 13.7 per cent from DM14.5bn to DM16.5bn. Foreign orders contributed 37 per cent to the total, up from 32.6 per cent previously. Order backlog totalled DM15.9bn at the year-end, up 20.8 per cent.

Holzmann said it expected a decline in European output this year and that it would continue to expand "moderately" in the US and Asia. It added that it would continue with its radical restructuring programme this year, aimed at reducing debts and improving profitability. As part of the restructuring, the group has said it planned to shed about 10 per cent of its 23,000-strong domestic workforce in 1997. Holzmann is also disposing of most of its property assets.

Sarah Althaus, Frankfurt

US bank in Hungary venture

The fund management arm of State Street Boston, the US banking group, and Prague-based Emerging Europe Asset Management yesterday unveiled a joint venture to make and manage direct investments in undervalued companies in the region for western institutional investors and high net worth individuals.

The venture, known as European Direct Capital Management, will provide backing for existing management at target companies in the region, delisting them from local exchanges, and restructuring them with a view to a later relisting.

Investments will be mainly in the non-financial sector, according to Mr Nigel Williams, EDCM chief executive. The venture has initial capital of $10m and is 60 per cent owned by State Street Global Advisors.

Vincent Boland, Prague

Bidding opens in Hanal sale

The Israeli government yesterday opened bidding for its 99.9 per cent holding in National Oil Co (Hanal). It said offers would be accepted until April 1, after which it would examine them based on the bidders' ability to manage and develop the company, financial viability and other criteria.

The sale comes after the ministerial privatisation committee gave approval in principle to the Hanal sale three months ago. Hanal holds oil and gas exploration rights in Israel and overseas. It has an interest in publicly-traded Hanal Dead Sea; exploration rights in the area of the Israeli port of Ashdod; gas wells; and drilling rights offshore from Congo and in the US.

Reuter, Jerusalem

Mondadori shares hit by resignation of deputy chief

By Paul Betts in Milan

Another upheaval in one of the main subsidiaries of the Fininvest empire of Mr Silvio Berlusconi, the former Italian prime minister and right-wing opposition leader, yesterday sent the shares of the Mondadori publishing group tumbling.

Trading in Mondadori shares had to be suspended twice on the Milan stock exchange because of heavy selling pressure following the surprise resignation of Mr Paolo Forlin, the publishing company's deputy chairman and managing director.

Mr Forlin, former head of the European operations of the US Scott Kimberly Clark paper group, joined Mondadori as managing director only last July, after the departure of Mr Franco Tato, now managing director of the state Enel electricity utility.

Mondadori said Mr Forlin had resigned for "personal reasons" and that the publishing group was in a healthy condition.

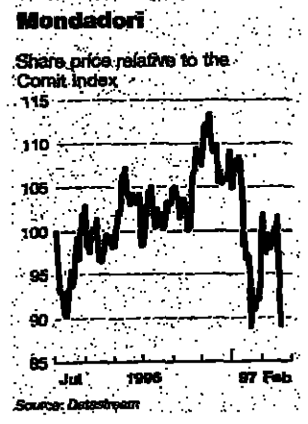
But the markets were confused and disturbed by the sudden resignation coming so soon after the departure of the well-regarded Mr Tato. Mondadori shares closed nearly 10 per cent lower at L12,400 in heavy trading.

Mr Leonardo Mondadori, chairman, said Mr Forlin's resignation had "nothing to do with alleged disagreements inside the publishing group or with its controlling shareholder".

He said Mondadori was pursuing the development strategy that the company had recently outlined.

But the resignation of Mr Forlin, after the company had only recently presented its new strategy, clearly undermined market sentiment.

Mondadori



Source: Datastream

However, Italy's biggest publishing group is expected to show net profits for 1996 in the range of L60bn-L70bn ($35m-$41m), helped in the second half by the fall in newsprint prices.

The company has called a special board meeting tomorrow following the latest top management upheaval.

One explanation suggested for the resignation of the 61-year-old managing director was his difficulty in adapting to an Italian publishing environment after working for many years in a large product-based US group such as Scott Kimberly Clark.

There were also suggestions that Mr Forlin may have been unhappy at the recent reorganisation of Fininvest, with the decision of the Berlusconi holding company to appoint controllers in each of the group's main subsidiaries reporting directly to Fininvest's top management.

See World Stock Markets

Israel Electric to float 20% of equity

By Judy Dempsey in Jerusalem

Israel Electric Corporation, the state-owned utility, plans to float 20 per cent of its equity to finance investments.

Mr Gad Ya'acobi, chairman, said yesterday the offering to local and international markets would be the first step towards the break-up of one of Israel's largest monopolies.

The trade unions, however, which have accrued generous benefits and privileges, would strongly resist any privatisation plans.

The offering, expected to raise $1bn, follows IEC's decision in December to become the first Israeli company to tap the international debt market, when it raised $600m in bonds.

The bond issue was over-subscribed. It attracted a group of Japanese investors who snapped up $150m of the bonds, signalling the start of Japanese interest in Israeli offerings.

The success of that offering has encouraged IEC to consider returning to the debt markets in the second half of this year. Mr Ya'acobi said the company would raise between $400m and $600m, again to finance its $8bn eight-year investment programme.

IEC's revenues were $2.2bn in 1995 and have grown at more than 7 seven per cent a year in recent years, as demand for electricity rises at 8 per cent a year.

Trading on the Tel Aviv Stock Exchange is too small to raise the amounts IEC requires. The company has also reached its ceiling in borrowing from Israeli banks.

ial Property

COMPANIES AND FINANCE: ASIA-PACIFIC

Moody's reviews Japan credit banks

By Gwen Robinson in Tokyo

Moody's, the US credit rating agency, yesterday cast fresh doubt on the health of Japan's banking system by placing the senior debt ratings of Japan's three long-term credit banks under review for a possible downgrade.

The review will focus on prospects for the long-term credit business in the light of forthcoming deregulation and an increasingly competitive environment, the agency said.

The three banks – the Industrial Bank of Japan, Long-Term Credit Bank of Japan and Nippon Credit Bank – rely on issuing bank debentures as an important fund-raising instrument.

Under review are NCB's Baa3 senior debt rating, including domestic debentures, and IBJ's and LTCB's senior debt, deposit and financial strength ratings. The agency confirmed NCB's long-term and short-term deposit ratings at Baa3, as well as its financial strength rating of E.

"While the risks to NCB depositors in the intermediate term remain low, debenture-holders face greater risks," Moody's said.

The rating actions on LTCB and IBJ, the leading long-term credit bank, reflect concerns over the ability of these institutions to maintain competitiveness in a deregulated environment, the agency said.

NCB has been trying to reassure investors since February 7, when speculation over a liquidity crisis triggered a plunge in the bank's share price and prompted the finance minister, Mr Hiroshi Mitsuzuka, to say it was "unthinkable" that the government would allow any of the top 20 banks to fail.

Throughout January, heavy selling of bank shares led the Tokyo stock market's plunges. Concern about the banking sector deepened later that month when Moody's downgraded its outlooks for four banks, including NCB, from stable to negative, and questioned the government's commitment to preventing bank failures.

NCB last night rejected Moody's concerns and said the bank was improving its business position. A plan being finalised to reduce assets by at least Y500bn ($4m) and staffing by 10 per cent wald further improve the bar's finances. "We are confident ıat Moody's will not lower its rang when it understands that NG's outlook has improved, along ıth the liquidity of debentures issed by the bank," it said.

LTCB described Moody's movas "regrettable". It rejected the ew that Japan's planned finanial deregulation would have a ngative effect on long-term crlit banks, and said reforms wald increase earning opportunities.

Normandy climbs 9.3% at halfway

By Nikki Tait in Sydney

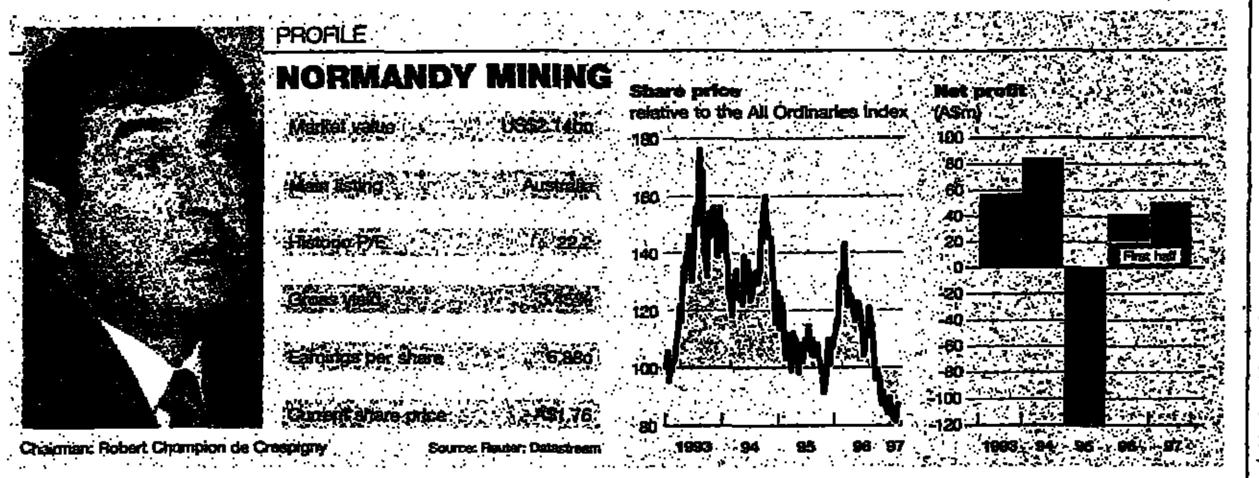
Normandy Mining, Australia's largest goldminer since its merger with two associated companies last year, yesterday announced an after-tax profit of A$51.6m (US$39.5m) in the six months to end-December.

The result represented a 9.3 per cent increase on the 1995-96 first half, assuming the merger between Normandy and its PosGold and Gold Mines of Kalgoorlie offshoots had taken place at that stage.

Much of the improvement came in the final quarter of 1996, when earnings were A$31.1m, 52 per cent higher than in the previous year.

The group said its gold interests contributed operating profits of A$176.4m, slightly below the A$180.5m seen a year earlier.

Mr Robert Champion de Crespigny, Normandy chairman, said there was a record performance from the 50 per cent owned KCGM joint venture, which takes in the Super Pit, Australia's largest gold mine. It contributed A$46.8m, up from A$32.4m.



Chairman: Robert Champion de Crespigny Source: Reuter; Datastream

But earnings from Big Bell slipped from A$20.8m to A$15.5m, partly because of difficult operating conditions, while Mount Leyshon's contribution fell from A$29.4m to A$25.9m. Lower head grades at Kaltails cut earnings there from A$11.2m to A$8m.

The commercial minerals division was flat, earning A$15.6m compared with A$15.8m, but the metals business improved from A$5.8m to A$9.1m. This was largely because of a turnround at the Woodcutters mine, which moved from a A$3.4m loss to an A$8.3m profit.

Goldfields Power, the power station in which Normandy has a 50 per cent interest, contributed a first-time profit of A$3.4m.

The Normandy result was scored after "other expenses" of A$11m. The charge was due to a loss on the sale of the Bounty mine, to merger expenses and to a provision against loans and investments. These were partly offset by a small foreign exchange gain.

In the current half, Normandy said it expected to consolidate results from the La Source group's African goldmines and kaolin operations, and to see the first contribution from the new Vera-Nancy goldmine in Queensland. It anticipated "improvements" at Mount Leyshon and a full six-month contribution from the goldfields power project.

● Coal & Allied Industries, the Australian coal-mining business 71 per cent owned by RTZ-CRA, yesterday announced an after-tax profit of A$4.1m for 1996, down from the A$42m seen in the previous year.

Sales were A$542.4m, compared with A$556.3m, reflecting lower thermal coal prices and a stronger Australian dollar. Production dipped from 9.1m tonnes in 1995 to A$8.4m tonnes.

Taiwan banks get first S&P ratings

By Laura Tyson in Taipei

Standard & Poor's, ıe credit rating agney, warned of increased polaisation in the Taiwanse banking sector, as it assigned its first ratingsto five of the country's bank.

Taiwan Co-operative Bak was rated Api. Four oter financial institutions – Fst Commercial Bank, Hua lan Commercial Bank, Chng Hwa Commercial Bank ud United World Chinese Cmmercial Bank – received ıtings of BBBpi, S&P said.

The "pi" designatbn stands for "public inforiation". The rating is basecn publicly disclosed infonation and does not relyon regular access to mangement. S&P launched he "pi" rating last Novembe.

State-owned Taiwan lo-operative Bank is oneof Taiwan's biggest bans, with T$1,510bn (US$54.7m) in assets at June 30 1996.

First Commercial, lua Nan and Chang Hwa, all state-run, are known as he country's "big three" cmmercial banks, with asets of T$947.4bn, T$922.9bn nd T$855.3bn, respectiviy. United World Commercis is a smaller private secor bank.

S&P said Taiwan banlng faced challenges. These included continued doiinance by the state banlng sector, eroding interest mrgins and weakening aset quality, partly because c a slump in the property mrket. Banks with a brad business base would be ıe best equipped to handle ıe more difficult environmet.

The agency commentd: "Some of the private baks appear best placed to achieve this, although may of them face the problemof not having sufficient frnchises established yet.

"Many of the state baks have problems with eficiency and political interference, and lack diversityin their range of business."

Without privatisatin, state-run banks "will cntinue to be constrainedby the government budgetg process and they will likly lose further ground to ıe private sector banks," S&P said.

ASIA-PACIFIC NEWS DIGEST

Loss at subsidiary hits Telecom NZ

Telecom New Zealand announced its first drop in earnings since 1992 as a result of problems with Pacific Star, its Australian subsidiary, and costs of starting Internet and other services.

Earnings fell 8.2 per cent to NZ$167.2m (US$116m) for the third quarter, to December 31. Mr Roderick Deane, chief executive, said that excluding Pacific Star's loss and start-up costs for new businesses, core earnings were NZ$184m, a 4.1 per cent increase on the same quarter of last year. Telecom NZ, which is controlled by Bell Atlantic and Ameritech, the US telecoms groups, had said its earnings would be knocked back by Pacific Star, a slowing economy and intensifying competition. However, the quarterly profit was still less than expected.

Earnings for the nine months rose 1.5 per cent to NZ$528.1m, with revenues up 7.1 per cent at NZ$2.5bn. Mr Deane said that in spite of strong growth in most of its services, the latest quarterly result was "not as good as it could be" and that the company was undertaking a review of its operations and a cost cutting programme.

Pacific Star recorded a loss in the quarter of NZ$39.8m, compared with a profit of NZ$11.6m for the same period of last year. Telecom NZ said it would announce a reliable estimate of all losses at the end of the financial year. These were likely to be between NZ$35m and NZ$55m. A one cent increase in the dividend, to 9.5 cents for the quarter, was declared. *Terry Hall, Wellington*

Shenyin named top broker

Shenyin & Wanguo Securities, China's largest stock broker, was the top trader on the Shanghai bourse last year, according to a report yesterday by stock exchange authorities.

Shenyin & Wanguo, established last April through a merger of Shanghai Shenyin Securities and Shanghai International Securities, accounted for Yn526.41bn ($63.5bn) of trading in 1996. The second-biggest trader was China Securities, based in Beijing, which accounted for trades worth Yn334.17bn. The Trust and Investment Company, which comes under the jurisdiction of the Construction Bank of China, came in third, with Yn179.76bn, according to the Shanghai Stock Exchange report. *James Harding, Shanghai*

Capral slides 51% in year

Capral Aluminium, the Australian aluminium group, yesterday announced a 51 per cent slump in profits to A$29.4m (US$22.6m) in the year to end-December. Sales fell 4 per cent to A$796m, with a small domestic increase more than offset by a decline in exports.

The group blamed the fall in aluminium prices, increased competition and a decline in "added-value" metal premiums. Earnings from the upstream smelting and trading activities plunged from A$96.6m to A$28.6m in 1995, while downstream interests lifted their contribution from A$29.4m to A$41m, partly owing to the addition of the Comalco rolling and extrusion businesses bought in late 1995.

However, Capral's shares rose 20 cents to A$4.30 yesterday, after the company announced a special dividend of 25 cents a share. The regular final dividend is 6 cents, making 14 cents for the year. Capral said its strong balance sheet, with gearing dropping to 21 per cent, should "leave the company in a strong position for further expansion". *Nikki Tait, Sydney*

Megaworld continues growth

Megaworld, the Philippine property group, yesterday announced its third consecutive year of profits growth above 100 per cent. Net income jumped 181 per cent, from 958m pesos to 2.69bn pesos ($102m), after an extraordinary gain following the initial public offering of its housing unit, Empire East Land Holdings. Analysts had been expecting earnings in the region of 1.6bn pesos. Consolidated revenue rose 24 per cent, to 9.86bn pesos, helped by strong sales of residential, office and mixed-use projects. Earnings per share trebled, from 0.51 pesos to 1.43 pesos.

Property analysts expect a substantial downturn in the property market within the next two years, as high-end property prices have quadrupled in the past 30 months.

Megaworld assets stood at 24.3bn pesos at December 31, up 83 per cent from 13.3bn pesos. *Justin Marozzi, Manila*

Stokes lifts Seven stake

Mr Kerry Stokes, the businessman, has increased his stake in Seven Network, the listed Australian television network which is also a part-owner of the MGM film studios in Hollywood. A notice to the Australian Stock Exchange said Mr Stokes' stake now stood at 24.1 per cent, compared with just under 22 per cent previously. *Nikki Tait*

Sanyo to spin off audio unit

By Michiyo Nakamoto

Sanyo, the Japanese consumer electronics group, is restructuring its audio-visual operations by spinning off its audio businesses into a separate company.

The company said it would establish Sanyo Techno Sound, a wholly-owned subsidiary, to take over the audio businesses from its audio-visual division.

The move comes as prices of audio products have plummetted because of increasing competition.

By shifting its audio operations into a separate company, Sanyo hopes to focus on higher value-added products in its consumer electronics and media division, such as digital video discs and digital televisions.

The new audio company will concentrate on promising audio products, such as MiniDiscs. For products with low value-added, it will increase original equipment manufacturing – bulk orders for other manufacturers.

Sanyo has already moved most of its audio manufacturing activities abroad.

Mr Hideki Watanabe, analyst at Nikko Research in Tokyo, welcomed Sanyo's move as a much-needed step towards scaling down its audio operations and improving profitability at the parent company.

Mr Watanabe believes Sanyo is losing between Y10bn and Y20bn ($80m-$160m) a year in its audio business. "Nobody is making money on audio alone," he said.

As an independent company, Sanyo Techno Sound will feel more pressure to scale down its operations and make them profitable.

Through this company, Sanyo would be able to discontinue unprofitable products, such as radio-cassette recorders and stereo components, and focus on more value-added products such as MiniDisc, Mr Watanabe said.

Nissan aims to reduce development times

By Michiyo Nakamoto in Tokyo

Nissan, Japan's second largest carmaker, has developed a system that will enable it to reduce product development time by an average 40 per cent to 19 months, it said.

Nissan plans to use its new system for models launched from this year. It believes the efficiency can save it tens of billions of yen in development costs, and it expects to reduce these costs – currently Y10bn a model – by at least 30 per cent.

The race to reduce development time has intensified among Japanese carmakers, which are competing in a domestic market that is not expected to expand significantly.

Mazda, which is 33.3 per cent owned by Ford, is also working to reduce development time from an average 24 months to 18 months within a year, and to 15 months over the next five years. Toyota and Honda also have programmes to cut development times.

Some Japanese companies have already succeeded in reducing development times to 18 months, by focusing on a particular model and using the same platform as a previous model.

Toyota developed its popular Ipsum station wagon in just 15 months, while Honda developed the C-RV recreational vehicle in 17 months.

However, Nissan is the first to claim that it will restrict development times of all new models to 19 months.

The company will design the model and make production decisions simultaneously, rather than working on production decisions after the design has been set.

It has built an information communication network to allow the smooth transfer of design and production data between divisions.

Mazda is also investing Y18bn over four years in a sophisticated digital information technology system that will enable it to conduct three-dimensional product design and engineering, and manage production information more efficiently.

Japanese car companies already lead the industry in bringing vehicles to market at very short development times. Western carmakers are believed to require 20-24 months from the completion of design to production.

However, the unexpected popularity of recreational vehicles in Japan, which caught many carmakers off guard, has underlined the importance of bringing products to market rapidly.

Nissan, which has suffered a fall in domestic market share to a low of 20.8 per cent, was particularly hurt by its failure to meet the rapid growth in demand for recreational vehicles. It aims to boost its market share to 25 per cent by the turn of the decade through faster development of attractive models.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements *in England and Wales*

1/2 hour period ending	Provisional Price for Trading on 18.02.97 Pool purchase price £/MWh	Final Prices for trading on 22.01.97 Pool purchase price £/MWh	Pool selling price £/MWh
0030	16.18	14.39	15.50
0100	16.18	16.56	17.67
0130	42.68	30.48	31.58
0200	42.68	30.48	31.59
0230	16.90	28.01	29.13
0300	29.58	33.78	34.90
0330	29.58	33.78	34.90
0400	29.58	30.48	31.59
0430	29.58	14.39	15.50
0500	29.58	14.39	15.50
0530	12.02	11.91	11.91
0600	12.00	11.88	11.88
0630	12.00	11.86	11.86
0700	19.65	11.88	11.88
0730	30.74	22.62	23.74
0800	39.22	22.63	23.75
0830	21.46	24.52	25.64
0900	21.47	24.54	25.68
0930	26.47	28.08	29.21
1000	26.73	38.02	39.18
1030	26.73	38.03	39.21
1100	26.73	38.04	39.22
1130	33.15	38.07	39.25
1200	48.89	38.11	39.30
1230	48.90	29.57	30.76
1300	48.88	29.54	30.72
1330	33.14	26.77	27.93
1400	33.13	26.78	27.85
1430	33.13	29.60	30.77
1500	26.73	29.62	30.79
1530	26.73	29.73	30.94
1600	26.72	30.74	32.30
1630	26.73	48.34	52.38
1700	26.77	77.38	88.05
1730	33.43	87.81	96.88
1800	51.14	81.41	88.94
1830	51.61	48.48	49.67
1900	50.80	40.57	42.32
1930	37.95	36.19	37.53
2000	36.86	31.44	32.83
2030	32.61	24.53	25.68
2100	26.72	24.51	25.63
2130	21.46	22.71	23.83
2200	20.53	22.71	23.83
2230	21.04	16.52	17.84
2300	19.65	20.12	21.23
2330	12.56	11.93	11.93
2400	11.88	11.80	11.80

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £15.89/MWh becomes 1.589p/KWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreement which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process [illegible]

COMPANIES AND FINANCE: UK

Canadian group successful with 51.42% in narrowest margin witnessed in British oil sector

Gulf wins control of Clyde Petroleum

By Jane Martinson

Gulf Canada Resources yesterday won control of Clyde Petroleum, the UK oil independent, by the narrowest margin the British oil sector has seen for years.

The Canadian oil and gas group declared the offer unconditional after winning 51.42 per cent of its target by 1 pm yesterday, the closing date.

Gulf's final tally included the 29.99 per cent it had bought in the market and acceptances for a further 21.4 per cent.

Four of Clyde's larger investors sold – including Norwich Union, PDFM and Wittington Investments. Capital Group of the US sold part of its 9.8 per cent stake.

Clyde's defence was helped in the increasingly tense closing stages of the deal when SHV, a large private Dutch company, bought 4.1m shares, or 1 per cent of Clyde, at 120p (cents) late on Monday.

The energy and retail group has several joint investments with Clyde in the Netherlands and analysts speculated yesterday that the "psychological message" could have been a sign that SHV was concerned about Gulf's plans for Clyde's Dutch assets.

Mr JP Ryan, Gulf's president and chief executive who was in the US yesterday, said he was "pleased" with the outcome.

"We remain strongly convinced that the price offered by Gulf represented excellent value for all Clyde's shareholders," he said. "We look forward to working with the management and employees of Clyde to grow the business."

Mr Malcolm Gourlay, Clyde's chairman, was "extremely disappointed" that control had been won "by the finest of margins".

Clyde's board is meeting today and Gulf's senior executives were due to arrive in London this morning.

Analysts are expecting some job cuts among Clyde's 400 employees, particularly as Gulf plans to move its headquarters from Herefordshire to London.

They also suggested yesterday that a falling oil price in the two weeks running up to the bid deadline could also have tipped the balance in Gulf's favour.

The oil price has fallen by 11 per cent in the last two weeks, while the oil sector has dropped by 5 per cent.

But Mr Craig Glick, Gulf's senior vice-president, said the bid, which had been "a long haul" was won because "we offered a full and fair price".

"Frankly, I'm surprised we didn't win more," he added.

Investcorp's £473m secures Welcome Break

By Christopher Price

Investcorp, the Bahrain-based investment group, has bought the Welcome Break motorway service station chain from Granada, the media and leisure group, for £473m ($766.3m) after beating off bids from supermarkets company Asda and Cinven, the venture capital group.

Granada yesterday took proceeds from disposals since acquiring hotel group Forte last year to £1.2bn by selling the 21-site Welcome Break and the Westbury Hotels for £90m.

Mr Michael Guthrie, the founder of the BrightReasons restaurant concern and former head of the Pavilion service station group, is to be chairman of Welcome Break.

The price was at a 43 per cent premium to book value and some £100m above analysts' valuations at the time of the Forte acquisition.

Proceeds from the sale of the London and New York Westbury hotels, which are being bought by property group Chelsfield, will be £50m after unwinding a leasing arrangement.

However, Granada has decided against selling the Grosvenor House hotel, situated on London's Park lane. Mr Charles Allen, chief executive, said annual profits at the hotel had risen from £13m to £20m during Granada's tenureship and the company foresaw even greater potential by continuing ownership.

Mr Allen said the latest disposals put the company well on course to meet its target of bringing net gearing down from 163 per cent to below 100 per cent by the September financial year-end.

The price paid by Investcorp for Welcome Break was a multiple of 22 times historic earnings. In its last financial year, the business reported operating profit of £32.2m on sales of £333m. Net assets amounted to £333.4m.

Mr Richard Warner, a director of Investcorp said he believed the company had achieved a good price for what was "an undervalued brand and asset". The group intended to invest some £50m in the next few years to enable the chain to "achieve its full potential".

Investcorp also intended to expand the Welcome Break brand into other service areas, such as other transport-related locations, as well as overseas.

SmithKline warns on sterling

By Daniel Green

Surging sales of new drugs, especially antidepressants, helped SmithKline Beecham, the UK's second largest drugs company, to a 14 per cent rise in 1996 pre-tax profits to £1.55bn ($2.51bn).

But profits were hit hard by the strength of sterling late last year.

Mr Hugh Collum, finance director, said if sterling were to stay at its current level for the rest of the year, pre-tax profits would be 5 per cent lower than at 1996 rates.

Mr Jan Leschly, chief executive, said pharmaceuticals growth had been driven by products introduced in the past five years. Sales of these new products rose 37 per cent to to £1.54bn, representing 36 per cent of the company's sales.

The star performer was the antidepressant Seroxat (Paxil in the US) with sales of £706m, up from £495m. Mr Leschly said the market leader, Prozac, made by US company Eli Lilly, was losing market share.

Also doing well was the company's biggest product, antibiotic Augmentin, where sales grew 4 per cent to £868m in spite of heavy competition.

That helped the company's pharmaceuticals division increase turnover 14 per cent to £4.8bn with a similar rise in trading profit to £1.2bn.

The company's other two divisions also did well. Sales at the consumer health operation, whose products range from paracetamol to smoking cessation treatments, rose 16 per cent to £2.3bn. Trading profits rose 11 per cent to £372m.

Clinical laboratories ended a period of falling profits with an 8 per cent pre-tax gain to £85m and a 3 per cent sales rise to £840m.

SmithKline said it hoped to reach a settlement with the US government in its dispute over the charging practices of the Clinical Laboratories diagnostic division "shortly," possibly within the next two months.

Jan Leschly

RESULTS

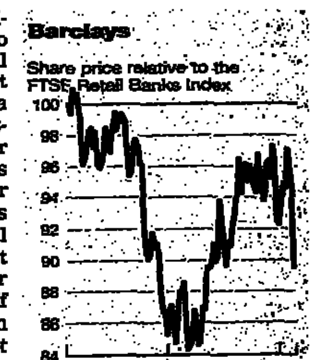
		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Barclays	Yr to Dec 31	-	(-)	2,356♥	(2,083♥)	104.2‡	(83.6)	20	Apr 29	16.5	31.5	26
Clondalkin ♣	Yr to Dec 31	299.1	(251.7)	22.3	(18.3)	38.8	(31.33)	4.204	Apr 11	3.822	6.6	6
Colt Telecom	Yr to Dec 31	35	(9.19)	11.2L	(5.26L♠)	7L	(14L)	-	-	-	-	-
Groupe Chez Gérard	27 wks to Dec 29	8.8	(8.38)	1.31	(1.35)	5.1	(5.2)	1	May 13	0.9	-	2.8
Haggas (John)	6 mths to Dec 31	21.2	(20.6)	1.31	(1)	4	(3.1)	1.5	Apr 23	1.5	-	4.5
Irish Permanent ♣	Yr to Dec 31	118.6□	(108□)	48.6	(42.4)	39.4	(34.2)	8.25	May 23	7	12.25	10.5
Macro 4	6 mths to Dec 31	11.7	(12.6)	5.14	(5.96)	16.5‡	(17.9)	9.7	Apr 2	9.3	-	24.3
Peptide	Yr to Dec 31	0.147	(0.155)	4.59L	(3.61L)	13.5L†	(20.2L)	-	-	-	-	-
Roxspur	6 mths to Dec 31	13.5	(15.9)	0.711	(0.536L)	0.21†	(0.3L)	-	-	-	-	-
St Modwen	Yr to Nov 30	40.2	(20.8)	11.7	(10)	6.8	(6.1)	1.7	Apr 18	1.4	2.5	2.1
Sedgwick	Yr to Dec 31	960.3□	(931.5□)	95.5	(90.1♠)	11.6	(12.6)	3.5	Apr 30	3.5	7.25大	7.375大
SmithKline Beecham	Yr to Dec 31	7,925	(7,011)	1,545	(1,623♥)	37.9	(35.5)	5.85大	Apr 15	4.65	17.85	14.25
Stadium	Yr to Dec 31	53.7	(44.8)	4.71	(4.04)	12.3†	(11.9)	3	May 1	-	4	-

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Abtrust Preferred	9 mths to Feb 28	-	(-)	-	(-)	-	(-)	3.25	Apr 30	3.25	-	14
Inv Tst Guernsey	Yr to Dec 31 ★	94.4	(84.7)	2.2	(2.25)	2.72	(2.83)	1.6§§	May 2	1.845	2.325	2.7
Temple Bar	Yr to Dec 31 ★	430.55	(395.42)	10.1	(10.3)	17.55	(17.86)	10.8	Mar 30	9.25	16	14.55
TR Euro Growth	6 mths to Dec 31 ★	278.92	(206.46)	0.99L	(0.074)	1.81L†	(0.13)	-	-	-	-	1.8
Updown	Yr to Dec 31	872.9	(795.14)	0.654	(0.696)	16.34	(17.4)	15.5✢	Mar 27	15	15.5	15

Earnings shown basic. Dividends shown net except §§gross throughout. Figures in brackets are for corresponding period. ♠After exceptional charge. ♥After exceptional credit. ‡On reduced capital. †On increased capital. ♣Irish currency. □Total income. 大Contains foreign income dividend element. ♦Third interim; makes 9.75p to date. ★Comparatives restated. ✢Special of 2.5p also proposed.

LEX COMMENT

Buy-backs



Shareholders should welcome Barclays' plan to reconsider its traditional method of handing out surplus capital, through a share buy-back. Yet question-marks must linger until the bank reveals what it has in mind. For all its faults, the obvious replacement – a special dividend – is now the most tax-efficient solution for shareholders *as a group*. If Barclays comes up with an alternative whose net effect is less attractive it will have some explaining to do. Meanwhile, it is worth clearing up a worry in the minds of many management teams: that special dividends can wreak havoc with share option schemes. The problem is that option-holders do not receive special dividends, yet lose out when share prices fall to adjust for them. But this difficulty is more apparent than real. In many schemes, the rules allow option prices to be adjusted; in others, solutions can usually be found. Option-holders can, for instance, be offered a cash payment equal to the dividend at the point their option is exercised.

The real snag is presentational: such adjustments look like changing the rules for fat cats. Consider a real case: WPP, which is rumoured possibly to be announcing a buy-back today. Theoretically, the famously lavish share option package of Mr Martin Sorrell, chief executive, could probably be adjusted if a special dividend was paid. But he might still not want the inevitable fuss. A better explanation than that will be needed, however, if a buy-back really is imminent.

Avon Rubber in £60m tyres sale

By Roland Adburgham

Avon Rubber is selling its tyres division to Cooper Tire & Rubber of the US for about £60m ($97.2m) cash.

Mr Steve Willcox, chief executive, said the sale would be a springboard for growth its other two divisions, automotive components and technical products. "Avon Tyres is a small, focused and successful niche player in the world market," he said. "But we decided the return available from that business did not warrant investment in major growth. The deal releases substantial funds and resources to concentrate on the growth of our other businesses."

The deal will yield an exceptional profit of about £12m, and a provision of £4m is being made for disposal costs and relocation of technical products from the Wiltshire factory, which will be sold to Cooper. Tyre distribution companies in France, Germany and Switzerland are also included in the sale.

In the year to September 28, the division had operating profits of £8.2m on sales of £110.8m. Net assets were £45.3m.

The performance of automotive components and technical products was in line with expectations, the company said.

COMPANIES AND FINANCE: UK

Barclays improves but lags behind peers

By George Graham, Banking Correspondent

Barclays' share price fell sharply yesterday as lower profits at BZW, its investment banking arm, held the bank's pre-tax profits to £2.36bn ($3.82bn) for 1996.

Operating profits at BZW slipped from £289m in 1995 to £204m as it invested in new people and computer systems in an attempt to catch up lost ground in investment banking.

Although that was dwarfed by an 11 per cent rise in operating profits on UK banking services to £1.7bn, Barclays' shares dropped 6 per cent to £11.29p.

Mr Martin Taylor, Barclays' chief executive, admitted BZW was producing inadequate returns, but insisted that the money spent on hiring new people should allow the bank to start producing better profits from the end of next year. "We could have done nothing, had a higher profit today, and a much weaker business," he said.

Barclays' overall return on shareholders' equity improved to 23 per cent from 21 per cent in 1995, against its 10-year average of 11 per cent. That still trailed the 33 per cent return reported last week by Lloyds TSB, which has abandoned investment banking to concentrate on domestic retail banking.

Mr Taylor said Barclays' estimate of how much capital it needed to keep as a cushion had increased to £6.7bn-£7.2bn. With shareholders' equity at £7.27bn and cash coming in at a rate of £180m a month, Barclays expects to return about £500m to shareholders over the next 12 months.

That disappointed some investors who had been expecting the bank to buy back more of its own shares. However, the government has changed the tax rules since Barclays' last share buy-back. "The change in tax legislation doesn't change our desire to return surplus capital, but we are giving thought to the means," Mr Taylor said.

By buying back 120m of its own shares over the past 18 months, Barclays helped to produce a 25 per cent increase in earnings per share to 104.2p, compared with the 13 per cent advance in pre-tax profits.

Personal banking operating profits rose 17 per cent to £773m, helped by a strong performance from Barclaycard, the group's flagship credit card business. Despite increased competition from new arrivals such as MBNA and Advanta, the US credit card specialists, Barclaycard opened 900,000 new accounts last year.

Business banking profits rose 6 per cent to £801m. Bad debt provisions fell by 46 per cent to £215m, thanks largely to releases of provisions on the old loan books Barclays is trying to run off.

BZW stands out as expensive

Investment banks have been rubbing their hands after a bumper year for financial markets in which many of them have reported record profits.

But at BZW, the Barclays arm that is one of the UK's premier investment banks, 1996 yielded a 29 per cent drop in operating profits as income rose by 7 per cent to £1.28bn, while operating costs climbed 18 per cent to £1.06bn.

Barclays measures the performance of its division by calculating post-tax return as a percentage of what it calls "economic capital". This risk-adjusted measure produces a much lower figure for capital employed than a standard return on equity calculation, and yet even by this standard investment banking produced a return of just 8 per cent last year. Personal banking, by contrast, produced 34 per cent, business banking 24 per cent and asset management 37 per cent.

"We clearly can't live with 8 per cent," said Mr Martin Taylor, Barclays' chief executive. "They [BZW] know very well, as I do, that the business needs to address its break-even point."

Brendan Corr

Bill Harrison: has already shaken up BZW with the apointment of new heads in all areas

Yet BZW has been one of the business areas in which Barclays has invested most heavily over the last year. The group is spending liberally on a new headquarters at Canary Wharf and on new computer systems.

At the same time, it spent £81m last year on what Mr Taylor coyly refers to as "upgrading" BZW: the cost of buying out the bonus packages of the new managers it has hired, and of paying off those it has let go.

The question Barclays shareholders were asking yesterday is whether their company was investing justifiably in a business capable of generating returns on economic capital above 20 per cent, as the rest of the bank has done, or was simply pouring more money into an operation destined to remain insufficiently profitable.

Mr Bill Harrison, the new chief executive Mr Taylor brought in from Robert Fleming to shake BZW up, has already brought a new broom to the task, with new heads appointed in all its major areas.

He believes BZW can produce much better returns by cross-selling; for example, by using its distribution ability in the secondary equity market to win primary equities business.

Yet BZW's disappointing performance over the past two years, in markets which have generally been as favourable for investment banks as they could possibly be, leaves questions.

BZW's woes are a mere drop in the bucket when set against the £1.94bn of operating profit from Barclays' personal, business, cross-border and private banking businesses.

Yet that makes it all the harder for shareholders to believe that BZW's earnings will come riding counter-cyclically to the rescue when these businesses run into their own profits pressures.

George Graham

Colour printers · Better and cheaper

Brighter prospects

Innovation is threatening monochrome's lead among business users

Bill Butcher

Over the past few years low-cost colour inkjet printers, from manufacturers such as Hewlett-Packard, Canon and Epson, have come to dominate the home and small business printer market.

Overall sales of inkjet printers in 1995 increased about 60 per cent in unit terms to 8.68m machines, and by 39 per cent in value to $2.99bn (£1.84), according to the latest figures from International Data Corporation, the market research company. Colour inkjets accounted for 7.03m units or about 80 per cent of the total, up from 30 per cent just a year earlier.

"All the major vendors have already turned their inkjet lines to colour," notes IDC.

Unlike the older-style dot-matrix or "line printers", which use inked ribbons, the most popular inkjet printers use a system that "shoots" ink through a multi-nozzled head. Heating the ink makes a tiny amount of vapour form a bubble which forces the ink through one of the openings in the print-head.

Similar methods use piezo-electric crystals embedded in containers of liquid ink. Piezo-electric crystals vibrate as electric current pulses through them, setting up precisely-timed ripples, each of which causes a droplet of ink to spray from an ultra-fine nozzle and form a dot of colour on the page.

These systems, mostly costing less than $300, can produce vibrant colours, particularly on specially coated papers. However, inkjet printers are relatively expensive to run, slow to operate and on cheaper papers the ink tends to "bleed" which creates a slightly fuzzy image. Factors such as this have meant colour has been relatively slow to penetrate the business market, where high-speed monochrome laser printers hold sway and colour is often seen as an unnecessary luxury.

However, the arrival of faster, lower-cost colour printers aimed at the business market has made corporate colour printing more viable. These colour business printers use technologies including conventional laser, thermal and ink.

In a laser machine, a beam is directed at a photo-electric belt forming a region of electric charge. For colour, this process is typically repeated four times for the cyan, magenta, yellow and black portions of an image. Toners – finely powdered dry inks – of each colour are attracted electrostatically to the belt and are transferred to an electrically charged drum. After all four colours are on the drum, the image is rolled on to paper carrying an opposite electrical charge and heat fused.

Generally this technology produces a sharp image, but has suffered because of relatively high costs of the equipment – typically up to $5,000 – its complexity, relatively slow speed and cost of operation.

For these reasons some manufacturers have turned to alternative colour technologies. Tektronix, the US technology group, has developed a solid ink technology for its Phaser line of colour printers.

These machines use a thermal wax printing technique also known as "phase change", which involves melting four differently coloured wax blocks. This liquid wax is forced through printhead nozzles on to a drum spinning at about 200rpm. After a complete image of the page has built up on the drum it is transferred to the paper, where it dries instantly.

In contrast to lasers and conventional inkjets, the image is neither fused nor absorbed into the paper which means that a high-quality, slightly glossy image can be produced even on low-grade paper such as standard photocopy sheets. Using this technology has enabled the US company to reduce the cost of the machine itself – the recently launched Phaser 350 costs $3,500.

It can also be hooked up to a dedicated scanner to reproduce multiple copies of an existing colour image. Models capable of producing A3 and poster-size prints 36 in wide are also available.

Traditionally, one of the biggest barriers to colour printing for businesses has been the relatively high cost of text-only (black) prints. However, by the astute move of supplying its customers with "free" black wax blocks, Tektronix claims it has overcome this obstacle as well – text printing costs about 1.6 cents a page, significantly less than conventional mono laser costs, while a typical colour page costs less than 8 cents.

The new system is proving popular with businesses that want a heavy-duty but quick colour printer. For example, IPC, the UK consumer magazine publisher, installed more than 60 Tektronix colour printers last year to output colour page proofs.

"We found that in many cases the solid-ink Phaser colour printer gives results almost as good as the actual page," says Nic Bellenberg, systems manager at IPC Magazines. "On top of that it is fast, easy to use and has affordable consumable costs."

At the same time, changes in desktop computing have made it easier to use colour in business – most desktop personal computer applications now support colour, and high-definition colour displays are standard on all new PCs.

Meanwhile, the processing power of modern desktop PCs is more than adequate for supporting complex graphics and most PCs are hooked together to form fast local area or enterprise networks, making the sharing of relatively expensive peripherals a more cost-effective option.

"Colour printing is now moving into the business mainstream," says Gerry Perkel, president of Tektronix's colour printing and imaging division. Paul Allaire, Xerox chief executive agrees: "Corporates are moving to colour."

The advocates of corporate colour printing claim a number of advantages for the technology. In particular, they say that locally produced colour business documents make communications more effective and increase the response rate to direct mail.

Desktop colour printing, they claim, reduces costs because more graphics and production work can be done in-house and colour documents can be created on demand, stored electronically and printed as required, removing the need to order and store large press runs.

The rapid development of corporate intranets, local area networks using standard Internet technologies, is also fuelling demand for corporate colour printing as users become increasingly used to colour Web pages.

Significantly, Web technology is also being used to help manage modern colour printers remotely.

Several colour printer manufacturers, including Tektronix and Xerox, have recently begun to build software into their machines which enables users to monitor and control printers over an intranet or the Internet using a standard Web browser.

Paul Taylor

Information Technology

● The FT's review of Information Technology appears on the first Wednesday of each month

Image of a high-speed future

A new type of printhead could have numerous applications

Visiting the chemist to develop your holiday snaps or waiting by the office colour printer for an illustration to emerge may soon be a sepia-tinted memory.

Xaar, a Cambridge-based research company, has developed electronic printheads which produce photographic quality pictures economically and at high speed.

"At the moment inkjets are dominant in the personal printer market," says Steve Temple, Xaar's technical director. "Our technology will move them into the networked printer market."

The day is not too far off, he adds, when people will be editing and printing their own photographs at home, downloading captured images from a digital camera to a personal computer – technology which already exists – and producing high-quality prints at high speed with printers containing Xaar's technology.

Xaar's printheads differ from conventional inkjet ones because they are constructed from an array of ink channels made from a "piezo-ceramic" material called PZT. When electrodes plated on to the walls between each channel pass a current across the material, the channels change shape.

The effect, says Temple, is to create an "acoustic wave" which shoots down the channel and ejects ink droplets, avoiding the need to heat the ink to high temperatures.

"We use only about one-thirtieth of the energy required by conventional inkjet printers," he says. The printheads are much smaller than rival products since microchip fabrication methods are used.

Special inks have also been developed, in collaboration with Zeneca Colours (formerly part of Imperial Chemical Industries). The formulation uses non-aqueous solvents and pigments as colourants which give laser print quality on standard and recycled office paper. "One of the keys to fast colour printing is drying time," says Temple.

Xaar, formed in 1990, focused first on developing a binary inkjet printhead – so called because it produces a single tone. Ideal for text-based work, it competes with laser printers and is also suitable for industrial applications such as large-scale poster printing.

But the company is now licensing a grey-scale version of its printhead which will enable users to churn out large numbers of photographic quality prints.

A grey-scale printhead produces photographic quality reproductions by using multiple dot sizes – up to 16, for example, rendering 16 levels of grey. So each dot created by the 360 dot-per-inch head is made up of a number of different dot sizes.

A laser printer applying 600 dots per inch to paper but using only a single dot size cannot match the quality, says Temple.

As the Internet gets faster surfers may want an ultra-quick colour printer to capture illustrations and data

Eight companies have so far signed up to use Xaar's technology in varying degrees, each paying £2m-plus for a licence, says Graham Wylie, managing director.

The product will give Xaar exposure to important emerging markets including digital consumer photography.

Kodak, UK arm of Eastman Kodak, the US maker of imaging products and one of the world's leading suppliers of consumer cameras and film, is not among Xaar's licensees, but it agrees the potential for digital cameras is vast.

Next month, Xaar will unveil a 2½in-wide printhead, aimed at high-speed office and industrial printing. But the biggest advance of all may come next year, when Xaar makes available an A4-wide grey scale printhead.

That, says Temple, will open the way to launching relatively cheap printers capable of churning out 100 photographic quality colour pages a minute.

The potential applications are numerous. As the Internet gets faster, for example, surfers may want an ultra-quick colour printer to capture illustrations and data.

Other industries might also benefit. Instead of using a print house and conventional delivery method such as the post, small circulation titles – specialist trade publications, for example – could be downloaded from a publisher to a high-speed A4 grey-scale colour printer in the local newsagent.

David Traherne

Eagle Eye · Louise Kehoe

Cultural chasm

It is easy to forget that Europeans do not necessarily aspire to the techno-lifestyle embraced in Silicon Valley

Why are European industrialists slower to make use of personal computer and Internet technologies than their counterparts in the US?

I've been mulling over this question since I talked a couple of weeks ago to Andy Grove, Intel chief executive. Grove was about to depart for the World Economic Forum in Davos, Switzerland, where he planned to deliver a characteristically blunt speech.

He said he would warn the assembled political and industrial leaders of Europe that they were falling behind in the adoption of new technologies. He would urge this group to lead by example by making PC technologies such as e-mail a fundamental part of the way they work.

Afterwards, European commentators variously saluted Grove for his "wake-up call" or dismissed his comments as a sales ploy.

To me, Grove's speech was a salutary reminder of the cultural chasm between the West Coast of the US and western Europe. Imbued in the technology-driven business culture of Silicon Valley, it is easy to forget that not everyone shares the faith; not everyone believes that taking maximum advantage of IT is critical to business success.

From this West Coast vantage point it is hard to imagine how any business or organisation could operate without e-mail and a corporate intranet.

Hewlett-Packard would function "poorly or not at all", if its e-mail systems were removed, says Lew Platt, chairman and chief executive. "I can hardly remember life without e-mail. It is woven into the fabric of how we operate."

At Intel, Microsoft, Cisco Systems or Sun Microsystems, the story is the same. Corporate networks carrying e-mail and Web pages are the life blood of these companies.

Yet in Europe, Platt, Grove and others tell me, the chief executive who uses e-mail is the exception rather than the rule. I also hear anecdotes of European managers who ask their secretaries to print out e-mail messages and type out responses.

Used in this way, e-mail is little more than a substitute for the fax machine, and an inconvenient one at that. It seems these managers are more determined to maintain their traditional work environments and practices than to take advantage of the opportunities created by new technologies.

I have come to the conclusion that this resistance to change has something to do with the pace of doing business in Europe – and for that matter the pace of life.

E-mail vastly accelerates business communications. It enables electronic messages and documents to be sent almost instantly to anywhere in the world. It eliminates "telephone tag" and spans time zones. It cuts bureaucracy and leads to faster decision making, speedier deal making and prompter customer services.

But e-mail also places new demands on everyone to respond swiftly, to make quick decisions and to deal directly with co-workers, customers and suppliers.

From the West Coast it is hard to imagine how any business or organisation could operate without e-mail and a corporate intranet

Bill Gates, chairman of Microsoft, for example, described at Davos how he starts his work day with screens full of e-mail and frequently finishes responding to these messages late at night.

For Gates, his colleagues at Microsoft and their counterparts throughout Silicon Valley, this is a way of life. To others, I suspect, it is not an appealing prospect.

***

The "multimedia" attributes of the Web have been widely touted. In reality, video on the Internet usually comes in snippets that take forever to download.

New software from Progressive Networks – the Seattle-based company that created the RealAudio software for downloading and listening to speech and music, promises to change all that, making video a ubiquitous component of Web pages.

This software marks a significant step forward in the evolution of the Web. If it catches on like RealAudio, for which Progressive claims 10m users, TV-style commercials, video messages from political candidates, live video newscasts and all manner of pay-per-view videos are just around the corner.

At 28.8 kbps (kilobits per second), RealVideo provides "newscast" quality video – fine for information but not good enough for entertainment. With the latest 56.6 kbps modems or better still an ISDN digital connection, it shines with full-motion, TV-quality pictures. (www.real.com)

***

As Internet publishers scramble to transform Web sites from "free samples" of their traditional paper-based products into paying propositions, there is intense interest in the growth of Web advertising.

Now Web advertisers are demanding more accurate measurement of the effectiveness of their Web-page "banners". Rather than asking how many times a Web page is read, they now ask for "click through" data – or how many visitors to a Web site click on an advertisement to get more information.

This could have significant implications for electronic publications and eventually perhaps for the traditional media.

Web sites with the highest numbers of visitors, such as search services, may be able to charge a premium only if large numbers of their users are sufficiently attracted to click on adverts. On the other hand, less widely used sites that draw special-interest readers may do better when "click through" is measured on advertisements targeted at their readers.

Ultimately, some in the Internet publishing industry expect a new form of targeted direct marketing with advertisers paying a bounty to Web publishers which can deliver readers from specific demographic groups.

Over time this will force traditional media, especially magazines and newspapers, to try to gather even more information about readers' interests and spending habits. The best way for them to do this may be via the Web.

***

Your opinions on issues raised in the Eagle Eye column are welcome. Please access the Eagle Eye discussion group at www.FT.com (look under the "connect and respond" heading on the contents page).

Contact Louise Kehoe: louise@FT.com

INTERNATIONAL CAPITAL MARKETS

High-yielders continue divergence from bunds

GOVERNMENT BONDS

By Samer Iskandar in London and Tracy Corrigan in New York

Divergence from German bunds was the dominant theme in Europe's high-yielding markets yesterday, prolonging Monday's trend.

"We are starting to see some serious profit-taking on the high-yielding markets now that the debate on Emu has become more open," said Ms Phyllis Reed, European bond strategist at BZW.

Italian, Spanish and Swedish bonds closed lower, against the tide of rising markets in the rest of continental Europe and the UK.

The March bund future on the London International Financial Futures Exchange reached a record 104.04 before settling at 103.71, up 0.13. Meanwhile, Matif's March notional future rose 0.32 to close at 132.68.

"The main question driving the markets is that of a delay to Emu," said Ms Sonja Gibbs, senior bond strategist at Nomura International. She said yesterday's selling "suggests market participants are beginning to reconsider the odds".

Spanish 10-year bonos fell 0.66 to 103.62, their yield spread over equivalent bunds widening by 11 basis points to 126 points. In Barcelona, March bono futures closed 0.81 lower at 113.98.

Swedish 10-year bonds lost 0.63 to 109.91, their yield spread over bunds also widening by 11 basis points to 112 points.

"If worries over Emu increase, we could see funds flow back into the D-Mark," Ms Gibbs said. "But so far the [high-yielding] markets have been relatively well supported. There are even signs of investors buying at these lower levels."

Ecu bonds matched the rise in bunds. Ecu-denominated 10-year French OATs rose 0.32 to 109.20, but traders warned that the sector could be vulnerable to Emu-related doubts. "Ecu bonds are already trading like a post-Emu market," said Ms Reed, at BZW. "A delay to Emu would be a frightening prospect for holders of Ecu bonds."

US Treasuries failed to maintain their impetus after last week's strong run.

Bond prices slipped by up to ¼ point in early trading, after traders returned to their desks following Monday's Presidents' Day holiday. A lacklustre equities market failed to provide any support. Analysts also said an overhang of last week's heavy supply was still weighing on prices.

Near midday, the new 30-year bonds, which were auctioned last Thursday, were down 7/32 at 100 11/16 to yield 6.546 per cent.

Two-year notes fell 1/32 to 100 1/32, yielding 5.770 per cent, while 10-year bonds were ¼ lower at 99¾ to yield 6.276 per cent.

Today's release of consumer price data could give the market a fresh push, with traders looking for further signs that inflationary conditions remain benign.

UK gilts rally on higher than expected fall in public sector debt

UK gilts rallied strongly yesterday on news of the higher than expected reduction in public sector debt last month, Edward Luce writes.

Although 10-year gilts underperformed German bunds with the same maturity, they continued to outperform Italian BTPs.

Analysts said the recent rally in the UK market, which saw the yield on gilts drop below that of BTPs last week for the first time since November, was partly fuelled by jitters over European Monetary Union.

A spate of negative comments by officials in Germany and Brussels on Italy's chances of becoming a founding member of Emu in 1999 has pushed the yield spread of 10-year BTPs over bunds 30 basis points wider in the last fortnight.

This spread closed at 182 basis points yesterday, 7 points up on Monday. Gilt yields were stable at 173 basis points over bunds.

Futures on UK long gilts hit a record 114 5/32 in morning trading, but dropped back on profit-taking to close at 113 9/16 on the London International Financial Futures and Options Exchange. Meanwhile, Liffe's March future on Italian BTPs fell a full point to close at 120.67.

"It would be an exaggeration to say that there is a negative correlation between the performance of gilts and BTPs," said Mr Ceris Williams, head of fixed income at Rothschilds Asset Management in London.

"Having said that, UK gilts would do even better if there was serious talk about postponing the Emu project," he added.

Currency dealing lifts fund returns

By Richard Lapper, Capital Markets Editor

Hedge funds specialising in currency trading advisory programmes made strong returns last month, reflecting recent volatility in the foreign exchange markets.

According to the Tass Flash report, a monthly survey conducted by Tass Management, a London-based information and research company, each of the 10 best performing "commodity trading advisers" – hedge funds which can also specialise in commodities and futures – made the majority of their profits from currency dealing.

The funds' successful trading strategies included taking long positions on the US dollar and short positions on the yen and D-Mark, both of which have weakened against the US currency in recent months.

Ms Nicola Meaden, chief executive of Tass, said the performance reflected trends first apparent in the last quarter of 1996.

The last time each of the top 10 performers in the survey had specialised in currencies was in early 1995, she said.

In the commodity markets, hedge funds made good profits by taking short positions in gold and platinum and long positions in coffee, Ms Meaden added.

Dean Winner Composite Foreign Currency fund topped the Tass chart with a return of 20.9 per cent, followed by Dunn Capital Financial TOPS with 17.9 per cent, and Dunn Capital WMA Account with 17.8 per cent.

More issues in eurosterling

INTERNATIONAL BONDS

By Conner Middelmann

The eurosterling sector received a further boost yesterday with the launch of £750m of new paper amid continued demand for sterling bonds. The relatively high yields available and the currency's strong performance have fuelled international demand for sterling assets, prompting about £9bn of bond issues in the first six weeks of 1997.

Bayerische Landesbank tapped this demand with a £500m issue of five-year bonds, hard on the heels of a £1bn five-year benchmark issue for the US Federal National Mortgage Corporation (Fannie Mae) last week.

"We decided to follow up Fannie Mae with something that would appeal to institutional and retail investors," said a dealer at SBC Warburg, joint bookrunner with CSFB. He said the issue was especially targeted at continental Europe.

Of particular appeal to retail investors is that Bayerische Landesbank's bonds are in bearer format, as opposed to Fannie Mae's registered global bonds. Nevertheless, he reported little switching out of Fannie Mae bonds, "which shows how much new cash is coming into the market and underlines the success of Fannie Mae's deal".

Japanese appetite for sterling paper spurred the launch of a further £250m of sterling bonds, for the **World Bank**. Lead manager Nomura said the three-year paper paid a 6 per cent coupon, about 500 basis points more than domestic three-year instruments available to Japanese retail investors.

The domestic sterling market saw a £65m issue of first mortgage debenture stock for **Shaftesbury**, the property company which owns London's Chinatown and recently-acquired Carnaby Street in London.

The debentures, due 2024, yield 90 basis points over gilts and are fungible with £29m of outstanding stock. The paper is secured on first mortgages on the Carnaby Estate and some properties in Chinatown. According to lead manager Dresdner Kleinwort Benson, the deal sold out quickly, mainly to UK institutions.

Germany's **DePfa Bank** set a new milestone with a DM1bn 12-year jumbo Pfandbrief issue, the longest maturity yet to be issued in the Pfandbrief sector.

"We were pleasantly surprised by the strong reception of the deal across Europe – about half was placed outside Germany," said Mr Frank Rühland, group treasurer. Joint leads Commerzbank, CSFB and Goldman Sachs reported strong sales to French and Benelux institutions such as life assurers, which like longer maturities.

DePfa also issued Fl 250m of four-year bonds, placed largely with Dutch institutions, and DM100m of bonds linked to the Rex index of long-dated bunds.

The **European Investment Bank** issued FFr3bn of 10-year bonds to be redenominated into euros once the European single currency is introduced. At that time, the bond will become fungible with a Fl 1bn issue launched in late January. Lead manager BNP said it placed about FFr500m of the issue outside France, notably with institutions in the Benelux region and the UK.

● Brazil's state-owned oil group **Petrobras** plans to issue $200m in debt denominated in yen by June, **Reuter** reports.

"We are discussing with the government if the samurai bond issue is the best alternative," said Mr Hernani Fortuna at Petrobras, adding that the central bank could recommend issuing bonds in another currency.

The company plans to raise a total of $500m to $600m in 1997. Last year, it raised $500m from the eurobond market.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
NordLB (s)	200	6.00	99.82R	Dec 2000	0.20R	+8(5⅝%Feb00)	Tokyo-Mitsubishi Intl
D-MARKS							
KLP (a)‡	110	(a1)	100.00	Mar 2007	0.50	-	Salomon Brothers
SBC, Jersey Branch (b)	100	1.00	94.82	Mar 2001	none	-	SBC Warburg
FRENCH FRANCS							
EIB (c,s)	3bn	5.75	102.94R	Feb 2007	0.325R	+15(i)	Banque Nationale de Paris
STERLING							
Bayerische Landesbank (s)	500	6.875	99.52R	Jun 2002	0.25R	+15(7%Jun02)	CSFB/SBC Warburg
World Bank (l)★	250	6.00#	100.425	Mar 2000	1.375	-	Nomura International
ITALIAN LIRE							
Crédit Local de France ‡	200bn	(d)	99.45R	Mar 2002	0.25R	-	Deutsche Morgan Grenfell
Nordic Investment Bank (e)	100bn	(e1)	99.875R	Mar 2002	0.375R	-	Cariplo
GUILDERS							
DePfa Finance	250	4.25	99.20R	Dec 2001	0.275R	+13.1(6%-01)	ING Barings
PESETAS							
DSL Bank ‡	*10bn*	*(f)*	*101.00*	*Mar 2007*	*1.15*	-	*BNP España*
DANISH KRONER							
First Austrian Bank	400	(g)	101.90	Apr 2005	2.00	-	Kreditbank Intl Group
CZECH KORUNA							
Deutsche Bank Finance	1bn	10.50	99.96R	Mar 1998	0.15R	-	Deutsche Morgan Grenfell

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ★Unlisted. ‡ Floating-rate note. # Semi-annual coupon. R: Fixed re-offer price; fees shown at re-offer level. a) Callable from Mar 02 at par. a1) 6-mth Libor +55bp to Mar 02, then +130bp. b) Exchangeable into FTSE Eurotrack 100 index at 2,589.19. Callable from 15/3/99, subject to 110% hurdle, at accreted value. c) Euro redenomination clause. Can be consolidated with Fl 1bn. d) 8% for 6 mths, then 4.05% + (6-mth Lira Libor –6-mth DM Libor). e) Convertible in Mar 99 into FRN paying 6-mth Libor +25bp. e1) zero to 18/3/98, then linked to MIB-30 to 18/3/00, then 9%. f) 6.67% to 20/3/02, then 12.80% –12-mth Libor, min 4.5%. g) 5% to 1/4/01, then 7¼%. i) Over interpolated yield. l) Long 1st coupon. s) Short 1st coupon.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		6.750	11/06	96.4674	+0.070	7.26	7.35	7.52
Austria		5.625	01/07	101.0000	+0.080	5.49	5.59	5.90
Belgium		6.250	03/07	105.4000	+0.020	6.26	5.54	5.94
Canada *		7.000	12/06	106.0000	–0.250	6.17	6.33	6.72
Denmark		8.000	03/06	112.6800	–0.040	6.14	6.23	6.55
France	BTAN	5.500	10/01	105.0873	–	4.28	4.35	4.57
	OAT	6.500	10/06	108.8900	+0.190	5.31	5.43	5.81
Germany Bund		6.000	01/07	103.8400	+0.090	5.48	5.58	5.87
Ireland		8.000	08/06	111.3000	–0.290	6.37	6.41	6.80
Italy		7.750	11/06	103.9300	–0.450	7.18†	7.08	7.46
Japan	No 143	6.300	09/01	121.3119	+0.050	1.37	1.38	1.48
	No 182	3.000	09/05	104.3096	+0.040	2.40	2.39	2.51
Netherlands		5.750	01/07	102.5600	–0.260	5.29	5.36	5.77
Portugal		9.500	02/06	119.4500	–	6.57	6.63	6.88
Spain		7.350	03/07	103.6200	–0.660	6.74	6.75	6.90
Sweden		8.000	08/07	109.9069	–0.630	6.65	6.69	6.76
UK Gilts		8.000	12/00	104–11	+7/32	6.68	6.75	7.20
		7.500	12/06	102–27	+9/32	7.09	7.13	7.64
		9.000	10/08	114–07	+8/32	7.18	7.21	7.73
US Treasury *		6.250	02/07	99–24	–1/32	6.28	6.41	6.53
		6.625	02/27	100–31	–2/32	6.55	6.70	6.78
ECU (French Govt)		7.000	04/06	109.2000	+0.320	5.68	5.82	6.17

London closing. *New York mid-day. Yields: Local market standard.
† Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: MMS International

US INTEREST RATES

Latest		Treasury Bills and Bond Yields			
		One month	-	Two year	5.77
Prime rate	8¼	Two month	-	Three year	5.91
Broker loan rate	7	Three month	5.10	Five year	6.05
Fed.funds	5 7/16	Six month	5.18	10-year	6.28
Fed.funds at intervention	-	One year	5.44	30-year	6.54

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	132.46	132.68	+0.32	132.94	132.46	157,627	133,713
Jun	131.14	131.34	+0.30	131.58	131.14	8,989	17,124
Sep	129.44	129.66	+0.32	129.86	129.44	1,159	1,269

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	Calls Mar	Calls Apr	Calls Jun	Puts Mar	Puts Apr	Puts Jun
128	4.68	3.39	3.67	-	0.06	0.36
129	3.68	2.47	2.84	-	0.13	0.53
130	2.69	1.62	2.11	0.01	0.28	0.78
131	1.72	0.89	1.45	0.04	0.55	1.11
132	0.78	0.44	0.97	0.10	1.10	1.63

Est. vol. total, Calls 31,613 Puts 54,807. Previous day's open int., Calls 157,000 Puts 205,633.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	103.64	103.71	+0.13	104.04	103.57	219164	245500
Jun	102.83	102.89	+0.13	103.20	102.83	12916	26884

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls Mar	Calls Apr	Calls May	Calls Jun	Puts Mar	Puts Apr	Puts May	Puts Jun
10350	0.37	0.39	0.66	0.86	0.16	1.00	1.27	1.47
10400	*0.12*	*0.23*	*0.47*	*0.67*	*0.41*	*1.34*	*1.58*	1.78
10450	0.03	0.13	0.33	0.51	0.82	1.74	1.94	2.12

Est. vol. total, Calls 31726 Puts 29922. Previous day's open int., Calls 229965 Puts 278908

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	*130.85*	129.67	-1.00	*131.03*	129.45	*107712*	*120807*
Jun	130.20	129.02	-1.01	130.20	128.80	4214	16840

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	Calls Mar	Calls Jun	Puts Mar	Puts Jun
12950	0.46	1.73	0.29	2.21
13000	0.19	1.45	0.52	2.43
13050	0.06	1.21	0.89	2.69

Est. vol. total, Calls 9888 Puts 10823. Previous day's open int., Calls 145747 Puts 154932

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	114.86	113.98	–0.81	114.92	113.95	116,420	66,930
Jun	114.79	114.06	–0.57	114.85	114.16	4,701	2,710

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	113-14	113-18	+0-10	114-05	113-14	91143	198826
Jun	113-04	113-03	+0-10	113-19	113-04	949	12962

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	Calls Mar	Calls Apr	Calls May	Calls Jun	Puts Mar	Puts Apr	Puts May	Puts Jun
113	0-45	1-03	1-37	1-57	0-09	0-61	1-31	1-51
114	0-12	0-40	1-07	1-26	0-40	1-34	2-01	2-20
115	0-02	0-21	0-49	1-02	1-30	2-15	2-43	2-60

Est. vol. total, Calls 8095 Puts 4226. Previous day's open int., Calls 99911 Puts 54600

Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	98.54	98.66	+0.26	98.86	98.52	1,325	5,989

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	114-07	114-00	+0-02	114-08	113-30	379,459	501,738
Jun	113-23	113-15	+0-01	113-25	113-15	6,834	43,683
Sep	113-08	113-09	+0-08	113-09	113-03	1,055	10,827

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Mar	126.11	-	-	126.14	126.07	2327	n/a
Jun	124.66	-	-	124.72	124.66	1337	n/a

* LIFFE futures also traded on APT. All Open interest figs. are for previous day.

FTSE Actuaries Govt. Securities — UK Indices

Price Indices UK Gilts	Tue Feb 18	Day's change %	Mon Feb 17	Accrued interest	xd adj. ytd		Low coupon yield Feb 18	Feb 17	Yr. ago	Medium coupon yield Feb 18	Feb 17	Yr. ago	High coupon yield Feb 18	Feb 17	Yr. ago
1 Up to 5 years (19)	121.76	0.18	121.55	2.54	1.75	5 yrs	6.78	6.84	7.00	6.84	6.91	7.04	6.88	6.95	7.12
2 5-15 years (21)	153.43	0.31	153.41	2.53	1.53	15 yrs	7.25	7.29	7.92	7.25	7.29	7.95	7.26	7.24	8.06
3 Over 15 years (6)	175.95	0.48	175.10	3.52	2.22	20 yrs	7.34	7.38	8.04	7.30	7.35	8.04	7.30	7.26	8.15
4 Irredeemables (5)	204.42	0.89	202.61	3.16	1.00	Irred.†	7.42	7.49	8.10						
5 All stocks (51)	147.36	0.30	147.11	2.75	1.77										

Index-linked							Inflation 5% Feb 18	Feb 17	Yr. ago	Inflation 10% Feb 18	Feb 17	Yr. ago
6 Up to 5 years (2)	206.52	0.01	206.51	2.30	0.00	Up to 5 yrs	2.96	2.96	2.40	2.22	2.21	1.06
7 Over 5 years (10)	200.02	0.00	200.02	0.79	1.81	Over 5 yrs	3.35	3.35	3.61	3.14	3.14	3.40
8 All stocks (12)	199.62	0.00	199.62	0.94	1.61							

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT Fixed Interest Indices

	Feb 18	Feb 17	Feb 14	Feb 13	Feb 12	Yr ago	High*	Low*
Govt. Secs. (UK)	96.74	96.30	96.45	96.56	96.54	92.27	96.74	91.59
Fixed Interest	120.18	119.92	119.66	119.43	119.63	112.27	120.18	110.74

Gilt Edged Activity Indices

	Feb 17	Feb 14	Feb 13	Feb 12	Feb 11
Gilt Edged bargains	122.8	104.7	85.2	79.7	86.1
5-day average	95.7	97.7	96.6	96.9	100.4

 * for 1996/97. Government Securities high since compilation: 127.40 (09/01/35), low 49.18 (03/01/75). Fixed Interest high since compilation: 133.87 (21/01/94), low 50.53 (03/01/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974.

UK GILTS PRICES

[illegible]

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:00 pm on February 18

[illegible]

CURRENCIES AND MONEY

Dollar weakens on profit taking

MARKETS REPORT

By Wolfgang Münchau

The US-dollar yesterday halted its rise against the D-Mark, though not before breaking through the DM2.70 level first. Currency analysts said the sudden change of mood was due to profit taking, and should not deflect from the dollar's fundamental strengths - or rather the D-Mark's weakness.

In London, the dollar ended down 0.8 pfennigs at 1.6914, having intermittently touched DM1.7050 in earlier Asian and European trading.

Yesterday was generally a day of D-Mark strength against currencies both inside and outside Europe's exchange-rate mechanism. The German currency gained most against sterling, helped by expectations that UK interest rates would not rise until the summer. Sterling closed at DM2.7087, down by 3.8 pfennigs. Sterling also weakened against the dollar, closing at $1.6015, down by 1.5 cents.

The D-Mark rose strongly against the Italian lira because of the latest uncertainties over Italy's prospects of meeting the Maastricht Treaty's criteria for the single European currency. The Italian currency fell through its central L990 parity against the D-Mark, closing at L993.7, from L987.3 the previous day.

There was comparatively less action on the yen exchange rates. The dollar was slightly weaker against the Japanese currency, closing at Y124,100, down by Y0.34.

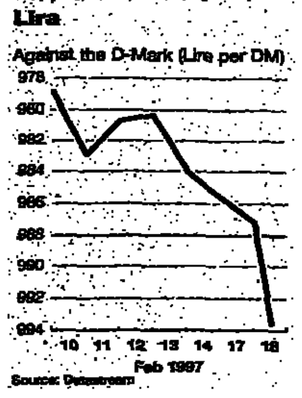
■ Hardly a day goes by without a warning from somewhere inside the EU that Italy may not be fit to join the first wave of countries in the single European currency. A reported - and later denied - warning from Mr Alfons Verplaetse, the Belgian central bank governor, that the single currency might get off to a better start without Italy added to yesterday's market sentiment about the Italian currency.

Italy's chances of meeting the Maastricht deficit criterion - or rather the chances of approaching that target - will depend crucially on the Italian government's ability to force through a mini-budget, which would result in a tightening of fiscal policy. Mr Romano Prodi, the Italian prime minister, said that a mini-budget was "very probable". But it is uncertain whether he can find a parliamentary majority for further tightening, and whether Italy's EU-partners would accept a last-minute tax increase as sufficient proof of Italy's commitment to fiscal stability.

Meanwhile, a reported - and also denied - comment by Mr Prodi that Germany may be in danger of missing the Maastricht criteria provided some entertainment in the currency markets but fundamentally failed to dent the market's increasingly dim view of the lira-D-Mark exchange rate.

■ Pound in New York

Feb 18	—Latest—	— Prev. close —
£ spot	1.6005	1.6220
1 mth	1.5996	1.6210
3 mth	1.5775	1.6189
1 yr	1.5875	1.6080



■ In the UK, the sterling September futures contract was up by 8 basis points at 93.37 in late afternoon trading, as the markets further ruled out the prospect of a near-term rise in British interest rates.

Mr Tony Norfield, London-based currency economist at ABN Amro, said that yesterday's strong figures showing a larger than expected UK public sector debt repayment and the previous night's failure of a vote of censure in the British parliament against a senior member of the government added to the markets' optimism.

He said "the vote makes it seem less likely that Labour is going to challenge the government again.

"The market now thinks that John Major will get his May election date. Is there going to be an interest rate rise before May? Of course not. Will the governor [of the Bank of England] jump on a new Labour government? Of course not."

The vote has thus lengthened the expected time horizon of the present level of base rates.

■ Currency strategists interpreted yesterday's D-Mark strength as strictly temporary, and seemed to discount the chances of a sustained rise in the German currency in the near term.

To get a change in market sentiment it would take a new set of data pointing towards economic recovery in Germany.

Without such data, the Bundesbank is in no position to raise interest rates and thereby support the D-Mark exchange rate.

■ OTHER CURRENCIES

Feb 18	£	$
Czech Rp	45.4972 - 45.5737	28.4180 - 28.4480
Hungary	279.871 - 280.128	174.810 - 174.860
Iran	4806.00 - 4803.00	3000.00 - 3000.00
Kuwait	0.4843 - 0.4859	0.3025 - 0.3033
Poland	4.8534 - 4.8637	3.0315 - 3.0360
Russia	9061.66 - 9070.52	5650.00 - 5662.00
U.A.E.	5.8785 - 5.8849	3.6705 - 3.6735

POUND SPOT FORWARD AGAINST THE POUND

Feb 18		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	19.0632	-0.2735	537 - 726	19.3811	19.0525	19.0197	2.7	18.9632	2.1	-	-	103.8
Belgium	(BFr)	55.9148	-0.8008	669 - 627	56.9680	55.8650	55.7896	2.7	55.5248	2.8	54.3298	2.8	103.7
Denmark	(DKr)	10.3444	-0.1302	396 - 492	10.5030	10.3342	10.3245	2.3	10.2839	2.3	10.105	2.3	105.7
Finland	(FM)	8.0630	-0.0731	551 - 709	8.2000	8.0540	-	-	-	-	-	-	83.6
France	(FFr)	9.1455	-0.1255	404 - 506	9.2973	9.1402	9.1248	2.7	9.0831	2.7	8.8783	2.9	106.6
Germany	(DM)	2.7087	-0.0389	075 - 099	2.7556	2.7070	2.7022	2.9	2.6889	2.9	2.6241	3.1	105.5
Greece	(Dr)	425.038	-4.727	825 - 251	430.471	424.804	-	-	-	-	-	-	66.6
Ireland	(I£)	1.0243	-0.0016	233 - 253	1.0301	1.0230	1.024	0.4	1.023	0.5	1.0165	0.8	102.5
Italy	(L)	2692.03	-20.31	952 - 453	2717.42	2685.42	2695.28	-1.4	2697.63	-0.8	2685.78	0.2	76.3
Luxembourg	(LFr)	55.9148	-0.8008	669 - 627	56.8460	55.8580	55.7898	2.7	55.5248	2.8	54.3298	2.8	103.7
Netherlands	(Fl)	3.0410	-0.0429	389 - 430	3.0924	3.0385	3.0332	3.1	3.0177	3.1	2.9442	3.2	103.6
Norway	(NKr)	10.8225	-0.0966	133 - 316	10.9475	10.8123	10.81	1.4	10.79	1.2	10.685	1.3	102.6
Portugal	(Es)	272.399	-3.499	234 - 564	276.595	271.454	272.594	-0.9	272.964	-0.8	-	-	94.7
Spain	(Pta)	229.535	-2.752	423 - 647	233.011	229.415	229.535	0.0	229.315	0.4	226.92	1.1	78.0
Sweden	(SKr)	11.9138	-0.0912	041 - 235	12.0374	11.9035	11.8948	1.9	11.8503	2.1	11.6408	2.3	86.4
Switzerland	(SFr)	2.3606	-0.033	591 - 621	2.4005	2.3575	2.3525	4.1	2.3373	3.9	2.2658	4.0	102.1
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	96.8
Ecu	-	1.3977	-0.0149	962 - 991	1.4162	1.3954	1.3958	1.7	1.3913	1.8	1.3899	2.0	-
SDR†	-	1.164500	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.6013	-0.0152	007 - 018	1.6172	1.5987	-	-	-	-	-	-	-
Brazil	(R$)	1.6801	-0.0154	794 - 808	1.6959	1.6777	-	-	-	-	-	-	-
Canada	(C$)	2.1730	-0.0129	719 - 741	2.1899	2.1698	2.1679	2.8	2.157	2.9	2.098	3.5	86.3
Mexico	(New Peso)	12.4901	-0.0721	782 - 020	12.6036	12.4679	-	-	-	-	-	-	-
USA	($)	1.6015	-0.0153	010 - 020	1.6175	1.5989	1.6005	0.7	1.5985	0.7	1.5888	0.8	104.1
Pacific/Middle East/Africa													
Australia	(A$)	2.0925	-0.0156	912 - 938	2.1127	2.0895	2.0938	-0.7	2.0945	-0.4	2.0941	-0.1	96.1
Hong Kong	(HK$)	12.4116	-0.1177	069 - 163	12.5345	12.3923	12.4043	0.7	12.3904	0.7	12.3259	0.7	-
India	(Rs)	57.4779	-0.5586	119 - 438	58.0520	57.4020	-	-	-	-	-	-	-
Israel	(Shk)	5.3674	-0.0498	600 - 747	5.4192	5.3590	-	-	-	-	-	-	-
Japan	(Y)	198.746	-2.442	604 - 888	201.620	198.500	197.816	5.6	195.961	5.6	187.546	5.6	122.0
Malaysia	(M$)	3.9822	-0.0419	801 - 842	4.0349	3.9765	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.3226	-0.0089	210 - 241	2.3449	2.3183	2.3293	-3.5	2.3388	-2.8	2.3596	-1.6	115.3
Philippines	(Peso)	42.1835	-0.413	223 - 447	42.5560	42.1204	-	-	-	-	-	-	-
Saudi Arabia	(SR)	6.0064	-0.0573	042 - 085	6.0661	5.9968	-	-	-	-	-	-	-
Singapore	(S$)	2.2846	-0.0084	830 - 861	2.3095	2.2816	-	-	-	-	-	-	-
South Africa	(R)	7.1435	+0.0079	389 - 481	7.2007	7.0993	-	-	-	-	-	-	-
South Korea	(Won)	1394.11	-28.79	967 - 855	1430.16	1388.09	-	-	-	-	-	-	-
Taiwan	(T$)	44.2735	-0.3181	196 - 273	44.7071	44.2016	-	-	-	-	-	-	-
Thailand	(Bt)	41.6471	-0.5097	940 - 001	42.1520	41.5870	-	-	-	-	-	-	-

† Rates for Feb 14. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Feb 18		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P. Morgan index
Europe													
Austria	(Sch)	11.9033	-0.0569	011 - 055	11.9960	11.9009	11.8886	1.5	11.8433	2.0	11.6483	2.1	103.5
Belgium	(BFr)	34.9140	-0.166	950 - 330	35.1600	34.8850	34.854	2.1	34.7265	2.1	34.1865	2.1	103.6
Denmark	(DKr)	6.4592	-0.0196	582 - 602	6.5009	6.4516	6.4503	1.7	6.4319	1.7	6.3502	1.7	105.1
Finland	(FM)	5.0347	+0.0023	313 - 380	5.0741	5.0303	5.0259	2.1	5.0072	2.2	4.9247	2.2	83.2
France	(FFr)	5.7106	-0.0237	092 - 120	5.7522	5.7058	5.7023	1.8	5.6843	1.8	5.6086	1.8	106.0
Germany	(DM)	1.6914	-0.0081	911 - 916	1.7050	1.6902	1.6885	2.1	1.6825	2.1	1.6578	2.0	104.9
Greece	(Dr)	265.400	-0.42	350 - 450	267.200	265.230	266.955	-7.0	269.525	-6.2	280.55	-5.7	66.5
Ireland	(I£)	1.5635	-0.0124	625 - 645	1.5767	1.5603	1.563	0.3	1.5627	0.2	1.5598	0.2	-
Italy	(L)	1680.94	+3.29	990 - 198	1687.40	1676.70	1683.67	-2.0	1686.84	-1.4	1687.72	-0.4	76.5
Luxembourg	(LFr)	34.9140	-0.166	950 - 330	35.1600	34.8850	34.854	2.1	34.7265	2.1	34.1865	2.1	103.6
Netherlands	(Fl)	1.8988	-0.0087	981 - 995	1.9136	1.8978	1.895	2.4	1.887	2.5	1.8515	2.5	103.3
Norway	(NKr)	6.7577	+0.004	541 - 613	6.7908	6.7370	6.7539	0.7	6.7483	0.6	6.7227	0.5	102.5
Portugal	(Es)	170.090	-0.56	040 - 140	171.170	169.320	170.295	-1.4	170.59	-1.2	171.365	-0.7	95.0
Spain	(Pta)	143.325	-0.35	300 - 350	144.270	143.270	143.423	-0.8	143.434	-0.3	142.655	0.5	77.7
Sweden	(SKr)	7.4392	+0.0138	354 - 429	7.4604	7.4125	7.4364	0.5	7.4265	0.7	7.3792	0.8	86.6
Switzerland	(SFr)	1.4740	-0.0065	735 - 745	1.4857	1.4724	1.4702	3.1	1.4624	3.2	1.4295	3.0	102.1
UK	(£)	1.6015	-0.0153	010 - 020	1.6175	1.5989	1.6005	0.7	1.5985	0.7	1.5888	0.8	97.4
Ecu	-	1.1459	+0.0014	450 - 467	1.1470	1.1399	1.1472	-1.4	1.1503	-1.6	1.1669	-1.8	-
SDR†	-	0.72710	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9999	-	998 - 999	0.9999	0.9998	-	-	-	-	-	-	-
Brazil	(R$)	1.0491	+0.0004	490 - 492	1.0493	1.0489	-	-	-	-	-	-	-
Canada	(C$)	1.3569	+0.0049	566 - 571	1.3580	1.3520	1.3545	2.1	1.3495	2.2	1.322	2.6	86.6
Mexico	(New Peso)	7.7990	+0.029	940 - 040	7.8050	7.7930	7.917	-18.2	8.1835	-19.7	9.044	-16.0	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	104.4
Pacific/Middle East/Africa													
Australia	(A$)	1.3066	+0.0027	062 - 070	1.3073	1.3058	1.3081	-1.4	1.31	-1.0	1.3155	-0.7	97.7
Hong Kong	(HK$)	7.7500	+0.0003	495 - 505	7.7510	7.7490	7.7499	0.0	7.7504	0.0	7.7615	-0.1	-
India	(Rs)	35.8900	-0.007	600 - 200	35.9300	35.8500	36.105	-7.2	36.565	-7.5	-	-	-
Israel	(Shk)	3.3515	+0.0008	479 - 550	3.3577	3.3460	-	-	-	-	-	-	-
Japan	(Y)	124.100	-0.34	050 - 150	124.710	123.920	123.625	4.6	122.62	4.8	118.42	4.6	122.5
Malaysia	(M$)	2.4865	-0.0025	860 - 870	2.4959	2.4855	2.4893	-1.4	2.4947	-1.3	2.516	-1.2	-
New Zealand	(NZ$)	1.4502	+0.0081	497 - 507	1.4509	1.4495	1.4557	-4.6	1.46	-2.7	1.4915	-2.8	-
Philippines	(Peso)	26.3400	-0.007	100 - 700	26.3700	26.3100	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7505	-	503 - 506	3.7507	3.7502	3.7508	-0.1	3.7512	-0.1	3.7531	-0.1	-
Singapore	(S$)	1.4265	+0.0082	260 - 270	1.4273	1.4190	1.4244	1.8	1.4198	1.9	1.3985	2.0	-
South Africa	(R)	4.4605	+0.047	590 - 620	4.4850	4.4060	4.5012	-10.9	4.5762	-10.4	4.891	-9.7	-
South Korea	(Won)	870.500	-9.6	000 - 000	885.000	867.500	-	-	-	-	-	-	-
Taiwan	(T$)	27.6450	+0.064	200 - 700	27.6700	27.5980	27.6451	0.0	27.6453	0.0	-	-	-
Thailand	(Bt)	26.0050	-0.07	800 - 300	26.0600	25.9780	26.095	-4.2	26.2625	-4.0	26.9	-3.4	-

† SDR rate per $ for Feb 14. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Feb 14: Base average 1990=100.

WORLD INTEREST RATES

MONEY RATES

February 18	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	3 1/32	3 1/8	3 1/8	3 5/32	3 1/4	6.00	2.50	-
France	3 3/8	3 5/16	3 5/16	3 11/32	3 13/32	3.10	-	4.75
Germany	3 1/8	3 3/16	3 3/16	3 3/16	3 1/4	4.50	2.50	3.00
Ireland	5 3/4	5 21/32	5 3/4	5 27/32	5 3/4	-	-	6.25
Italy	7 1/2	7 13/32	7 1/4	7 1/8	6 27/32	8.25	6.75	7.41
Netherlands	2 27/32	2 29/32	2 31/32	3	3 1/8	-	3.00	3.30
Switzerland	1 3/8	1 13/32	1 13/32	1 1/2	1 15/32	-	1.00	-
US	5 1/8	5 5/16	5 3/8	5 1/2	5 5/8	-	5.00	-
Japan	1/2	9/16	9/16	19/32	5/8	-	0.50	-
■ $ LIBOR FT London								
Interbank Fixing	-	5 3/8	5 15/32	5 17/32	5 3/4	-	-	-
US Dollar CDs	-	5.12	5.14	5.18	5.30	-	-	-
ECU Linked Ds	-	4 1/4	4 3/16	4 1/8	4 1/8	-	-	-
SDR Linked Ds	-	3 5/8	3 5/8	3 11/16	3 25/32	-	-	-

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo Mitsubishi, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Feb 18	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	3 1/16 - 2 7/8	3 3/16 - 3 1/8	3 1/4 - 3 1/16	3 1/4 - 3 1/16	3 7/16 - 3 9/32	3 1/4 - 3 1/8
Danish Krone	3 11/32 - 3 1/4	3 7/16 - 3 13/32	3 5/8 - 3 1/2	3 5/8 - 3 1/4	3 11/16 - 3 17/32	3 13/16 - 3 21/32
German Mark	3 5/16 - 3 1/16	3 7/32 - 3 3/32	3 3/16 - 3 1/16	3 1/16 - 2 15/16	3 1/16 - 2 15/16	3 3/16 - 3 1/16
Dutch Guilder	3 - 2 13/16	3 - 2 27/32	2 31/32 - 2 27/32	3 - 2 7/8	3 1/32 - 2 15/16	3 1/8 - 3 1/16
French Franc	3 1/4 - 3 1/8	3 5/16 - 3 3/16	3 3/8 - 3 1/4	3 5/16 - 3 7/32	3 5/16 - 3 7/32	3 3/8 - 3 1/4
Portuguese Esc.	6 7/16 - 6 7/32	6 7/16 - 6 9/32	6 1/4 - 6 1/4	6 3/8 - 6 1/4	5 29/32 - 5 13/16	5 25/32 - 5 3/4
Spanish Peseta	8 13/32 - 6 11/32	6 11/16 - 6 7/16	6 7/32 - 6 5/32	6 1/32 - 5 31/32	5 27/32 - 5 25/32	5 3/4 - 5 11/16
Sterling	5 13/16 - 5 11/16	6 1/8 - 6	6 3/16 - 5 15/16	6 1/2 - 6 3/8	6 7/16 - 6 3/16	6 11/16 - 6 7/16
Swiss Franc	1 5/8 - 1 1/4	1 13/16 - 1 11/16	1 25/32 - 1 17/32	1 13/16 - 1 11/16	1 13/16 - 1 11/16	1 25/32 - 1 17/32
Canadian Dollar	3 1/16 - 2 7/8	3 1/16 - 2 7/8	3 1/16 - 2 15/16	3 5/32 - 3 1/32	3 1/4 - 3 1/8	3 1/2 - 3 13/32
US Dollar	5 5/16 - 5 3/16	5 13/32 - 5 9/32	5 7/16 - 5 3/8	5 17/32 - 5 7/16	5 17/32 - 5 11/16	5 13/16 - 5 3/4
Italian Lira	8 - 7	7 1/2 - 7 11/32	7 9/16 - 7 7/16	7 11/32 - 7 9/32	7 3/16 - 7 1/8	6 31/32 - 6 7/8
Japanese Yen	17/32 - 1/2	9/16 - 7/16	13/32 - 3/8	1/2 - 3/8	1/2 - 13/32	11/16 - 9/16
Asian $Sing	3 - 2 7/8	2 3/4 - 2 5/8	2 3/4 - 2 5/8	3 - 2 7/8	3 1/16 - 2 15/16	3 1/4 - 3 1/8

Short term rates are call for the US Dollar and Yen, others: two days' notice

■ THREE MONTH PIBOR FUTURES (MATIF) Paris Interbank offered rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	96.70	96.69	-0.01	96.71	96.69	6,788	63,999
Jun	96.75	96.73	-0.02	96.76	96.73	9,933	48,606
Sep	96.73	96.71	-0.02	96.74	96.71	3,276	35,987

■ THREE MONTH EUROMARK FUTURES (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Apr	96.88	96.88	-	96.88	96.88	600	4910
Jun	96.89	96.89	-	96.90	96.88	16786	176977
Sep	96.83	96.83	-	96.84	96.82	18194	150314
Dec	96.69	96.68	-	96.69	96.66	26154	170308

■ ONE MONTH EUROMARK FUTURES (LIFFE)* DM3m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	96.81	96.82	-	96.82	96.81	3151	17878
Apr	96.88	96.88	-	96.88	96.87	710	2793
May	-	96.88	-	-	-	0	3812
Jun	-	96.88	-	-	-	0	430

■ THREE MONTH EUROLIRA FUTURES (LIFFE)* L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	92.89	92.81	-0.08	92.91	92.76	28384	94546
Jun	93.42	93.31	-0.11	93.45	93.26	40842	85600
Sep	93.72	93.61	-0.11	93.73	93.55	12494	47261
Dec	93.91	93.74	-0.15	93.93	93.68	11843	33275

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	98.28	98.27	-	98.29	98.24	4777	29328
Jun	98.29	98.33	+0.03	98.33	98.27	5546	35451
Sep	98.22	98.24	+0.03	98.24	98.18	1628	13910
Dec	98.04	98.06	+0.03	98.06	97.99	835	10059

■ THREE MONTH EUROYEN FUTURES (LIFFE) Y100m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	99.46	99.46	-	99.48	99.46	100	n/a
Jun	-	99.44	-	-	-	0	n/a
Sep	-	99.37	-	-	-	0	n/a

■ THREE MONTH ECU FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	95.94	95.90	-0.03	95.94	95.90	694	10770
Jun	96.02	95.98	-0.03	96.03	95.98	508	5838
Sep	96.03	95.98	-0.04	96.03	95.99	240	4126
Dec	95.98	95.93	-0.04	95.99	95.93	82	4781

* LIFFE futures also traded on APT

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

Strike Price	CALLS Mar	CALLS Jun	CALLS Sep	PUTS Mar	PUTS Jun	PUTS Sep
9275	0.13	0.64	0.97	0.07	0.08	0.11
9300	0.03	0.45	0.77	0.22	0.14	0.16
9325	0.01	0.29	0.59	0.45	0.23	0.23

Est. vol. total, Calls 20401 Puts 1220. Previous day's open int., Calls 140167 Puts 84511

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Feb 18		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.49	16.36	4.845	1.832	4815	5.439	19.35	487.2	410.5	21.30	4.223	1.789	3.887	2.865	355.4	2.500
Denmark	(DKr)	54.07	10	8.845	2.620	0.990	2603	2.941	10.46	263.4	222.0	11.52	2.283	0.967	2.102	1.549	192.2	1.352
France	(FFr)	61.13	11.31	10	2.962	1.120	2943	3.325	11.83	297.8	250.9	13.02	2.581	1.093	2.376	1.752	217.3	1.529
Germany	(DM)	20.64	3.817	3.376	1	0.378	993.7	1.123	3.994	100.6	84.72	4.396	0.872	0.369	0.802	0.591	73.35	0.516
Ireland	(I£)	54.60	10.10	8.932	2.646	1	2629	2.970	10.57	266.0	224.1	11.63	2.306	0.977	2.122	1.564	194.0	1.365
Italy	(L)	2.077	0.384	0.340	0.101	0.038	100.	0.113	0.402	10.12	8.525	0.442	0.088	0.037	0.081	0.060	7.381	0.052
Netherlands	(Fl)	18.39	3.400	3.008	0.891	0.337	885.2	1	3.558	89.58	75.47	3.916	0.776	0.329	0.715	0.527	65.34	0.460
Norway	(NKr)	51.67	9.556	8.453	2.504	0.946	2488	2.811	10	251.8	212.1	11.01	2.182	0.924	2.008	1.481	183.6	1.292
Portugal	(Es)	20.52	3.796	3.358	0.994	0.376	988.3	1.116	3.972	100.	84.25	4.372	0.867	0.367	0.798	0.588	72.94	0.513
Spain	(Pta)	24.36	4.505	3.985	1.180	0.446	1173	1.325	4.715	118.7	100.	5.190	1.029	0.436	0.947	0.698	86.58	0.609
Sweden	(SKr)	46.94	8.682	7.679	2.275	0.860	2260	2.553	9.085	228.7	192.7	10	1.982	0.840	1.825	1.345	166.8	1.174
Switzerland	(SFr)	23.68	4.380	3.874	1.147	0.434	1140	1.288	4.583	115.4	97.20	5.044	1	0.424	0.920	0.679	84.16	0.592
UK	(£)	55.91	10.34	9.146	2.709	1.024	2692	3.041	10.82	272.4	229.5	11.91	2.361	1	2.173	1.602	198.7	1.398
Canada	(C$)	25.73	4.758	4.209	1.247	0.471	1239	1.399	4.979	125.4	105.6	5.481	1.087	0.460	1	0.737	91.44	0.643
US	($)	34.90	6.454	5.709	1.691	0.639	1680	1.898	6.754	170.0	143.3	7.434	1.474	0.624	1.356	1	124.0	0.873
Japan	(Y)	28.14	5.204	4.603	1.363	0.515	1355	1.530	5.445	137.1	115.5	5.994	1.188	0.503	1.094	0.806	100.	0.704
Ecu		39.99	7.396	6.542	1.938	0.732	1926	2.175	7.740	194.8	164.2	8.519	1.689	0.715	1.554	1.146	142.1	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	0.5919	0.5899	-0.0040	0.5927	0.5875	18,597	90,478
Jun	0.5952	0.5935	-0.0038	0.5958	0.5900	346	5,914
Sep	-	0.5965	-0.0045	-	0.5965	187	2,293

■ JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	0.8060	0.8088	+0.0006	0.8094	0.8048	13,718	78,318
Jun	0.8130	0.8191	+0.0006	0.8191	0.8130	612	3,718
Sep	-	0.8302	-	-	0.8262	70	674

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	0.6830	0.6788	-0.0062	0.6831	0.6749	13,592	47,803
Jun	0.6890	0.6849	-0.0058	0.6890	0.6810	180	3,151
Sep	-	0.6910	-	-	0.6910	5	1,963

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	1.6202	1.6016	-0.0216	1.6218	1.5984	5,400	33,994
Jun	1.6110	1.5970	-0.0212	1.6110	1.5962	146	2,732
Sep	-	1.5940	-	-	1.5940	1	1,059

UK INTEREST RATES

LONDON MONEY RATES

Feb 18	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	6 1/2 - 5	6 1/8 - 5 15/16	6 1/16 - 6	6 3/16 - 6 1/8	6 7/16 - 6 5/16	6 11/16 - 6 9/16
Sterling CDs	-	-	6 1/32 - 6 1/32	6 5/32 - 6 3/32	6 9/32 - 6 7/32	6 9/16 - 6 1/2
Treasury Bills	-	-	5 15/16 - 5 7/8	5 7/8 - 5 13/16	-	-
Bank Bills	-	-	5 15/16 - 5 7/8	6 - 5 15/16	6 1/4 - 6 1/8	-
Local authority deps.	6 1/16 - 5 13/16	6 1/16 - 6 1/16	6 1/4 - 6 1/8	6 1/4 - 6 1/8	6 3/8 - 6 5/16	6 11/16 - 6 9/16
Discount Market deps	6 1/8 - 5 1/2	6 - 5 13/16	-	-	-	-

UK clearing bank base lending rate 6 per cent from October 30, 1996

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	2 1/2	5 1/2	5	5	4 3/4

Certs of Tax dep. under £100,000 is 2 1/2pc. Deposits withdrawn for cash 1 1/4pc.
Ave. tender rate of discount on Feb 14, 5.8415pc. ECGD fixed rate Stg. Export Finance. Make up day Jan 31, 1997. Agreed rate for period Feb 26, 1997 to Mar 25, 1997, Scheme III 7.58pc. Reference rate for period Jan 1, 1997 to Jan 31, 1997, Schemes IV & V 6.409pc. Finance House Base Rate 6 1/2pc from Feb 1, 1997

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	93.73	93.72	+0.02	93.74	93.72	16659	102396
Jun	93.52	93.54	+0.07	93.58	93.52	33285	118210
Sep	93.34	93.38	+0.09	93.42	93.34	33190	85901
Dec	93.22	93.25	+0.09	93.31	93.22	21265	57143
Mar	93.14	93.16	+0.09	93.23	93.14	6261	38455

Also traded on APT. All Open interest figs. are for previous day.

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	CALLS Mar	CALLS Jun	CALLS Sep	PUTS Mar	PUTS Jun	PUTS Sep
9350	0.23	0.16	0.17	0.01	0.12	0.29
9375	0.04	0.06	0.08	0.07	0.27	0.45
9400	0	0.02	0.03	0.28	0.48	0.65

Est. vol. total, Calls 16849 Puts 16556. Previous day's open int., Calls 198585 Puts 164721

EMS EUROPEAN CURRENCY UNIT RATES

Feb 18	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Finland	5.85424	5.80749	+0.01602	-0.80	2.89	5
Portugal	197.398	196.295	-0.097	-0.56	2.65	4
Ireland	0.798709	0.732666	+0.002673	-8.27	11.27	56
Spain	163.826	165.445	+0.05	0.99	1.07	-7
Netherlands	2.16979	2.19273	-0.00188	1.06	1.01	-8
Italy	1906.48	1933.08	+2.68	1.40	0.67	-10
Denmark	7.34555	7.44988	-0.00339	1.42	0.64	-10
Germany	1.92573	1.95320	-0.00195	1.43	0.64	-14
Austria	13.5485	13.7452	-0.0142	1.45	0.61	-11
Belgium	39.7191	40.3110	-0.0308	1.49	0.57	-11
France	6.45863	6.59253	-0.00445	2.07	0.00	-17
NON ERM MEMBERS						
Greece	295.269	305.731	-0.097	3.54	-1.42	-
UK	0.793103	0.714871	+0.002842	-9.86	13.24	-

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu: a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate. 17/9/92: Sterling suspended from ERM. Adjustment calculated by the Financial Times.

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Feb	CALLS Mar	CALLS Apr	PUTS Feb	PUTS Mar	PUTS Apr
1.610	1.11	2.38	2.96	-	1.30	2.01
1.620	0.11	1.83	2.51	-	1.74	2.51
1.630	-	1.38	2.03	-	2.30	2.98

Previous day's vol., Calls 644 Puts 588. Prev. day's open int., Calls 35,186 Puts 52,635

■ PHILADELPHIA SE D-MARK/$ OPTIONS DM62,500 ($ per DM)

Strike Price	CALLS Feb	CALLS Mar	CALLS Apr	PUTS Feb	PUTS Mar	PUTS Apr
0.595	-	0.60	0.94	0.19	0.76	1.01
0.600		0.43	0.72	0.68	1.06	1.25
0.605	-	0.29	0.53	1.20	1.41	1.58

Previous day's vol., Calls 1,282 Puts 1,438. Prev. day's open int., Calls 43,872 Puts 28,134

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	94.51	94.52	+0.01	94.53	94.51	60,884	390,778
Jun	94.42	94.43	+0.02	94.44	94.41	118,319	381,060
Sep	94.32	94.33	+0.02	94.34	94.31	109,132	296,338

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	95.04	95.05	+0.02	95.06	95.04	675	5,242
Jun	94.98	94.99	+0.03	94.99	94.98	421	3,657
Sep	94.86	94.87	+0.02	94.88	94.87	742	982

All Open interest figs. are for previous day

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

Strike Price	CALLS Mar	CALLS Apr	CALLS May	CALLS Jun	PUTS Mar	PUTS Apr	PUTS May	PUTS Jun
9675	0.13	0.16	0.18	0.19	0.02	0.02	0.04	0.05
9700	0.01	0.03	0.04	0.05	0.15	0.14	0.15	0.16
9725	0	0	0	0.01	0.39	0.36	0.36	0.37

Est. vol. total, Calls 7300 Puts 4551. Previous day's open int., Calls 504334 Puts 301888

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

Strike Price	CALLS Mar	CALLS Jun	CALLS Sep	PUTS Mar	PUTS Jun	PUTS Sep
9850	0.03	0.08	0.11	0.26	0.25	0.37
9875	0	0.03	0.04	0.48	0.45	0.55

Est. vol. total, Calls 1 Puts 50. Previous day's open int., Calls 5630 Puts 3310

BASE LENDING RATES

	%		%		%
Adam & Company	6.00	Duncan Lawrie	6.00	Royal Bk of Scotland	6.00
Allied Irish Bank (GB)	6.00	Exeter Bank Limited	7.00	●Singer & Friedlander	6.00
●Henry Ansbacher	6.00	Financial & Gen Bank	7.00	●Smith & Williamson Secs	6.00
Bank of Baroda	6.00	●Robert Fleming & Co	6.00	Scottish Widows Bank	6.00
Banco Bilbao Vizcaya	6.00	●Guinness Mahon	6.00	TSB	6.00
Bank of Cyprus	6.00	Habib Bank AG Zurich	6.00	United Bank of Kuwait	6.00
Bank of Ireland	6.00	●Hambros Bank	6.00	Unity Trust Bank Plc	6.00
Bank of India	6.00	Heritable & Gen Inv Bk	6.00	Western Trust	6.00
Bank of Scotland	6.00	●Hill Samuel	6.0	Whiteaway Laidlaw	6.00
Barclays Bank	6.00	C. Hoare & Co	6.00	Yorkshire Bank	6.00
Brit Bk of Mid East	6.00	Hongkong & Shanghai	6.00		
●Brown Shipley & Co Ltd	6.00	Investec Bank (UK) Ltd	6.00		
Citibank NA	6.00	Julian Hodge Bank	6.00		
Clydesdale Bank	6.00	●Leopold Joseph & Sons	6.00		
The Co-operative Bank	6.00	Lloyds Bank	6.00		
Coutts & Co	6.00	Midland Bank	6.00		
Cyprus Popular Bank	6.00	NatWestminster	6.00		
		●Rea Brothers	6.00		

● Members of London Investment Banking Association
* In administration

COMMODITIES AND AGRICULTURE

Infrastructure investment could prevent big rises in oil prices, conference told

Greater use of gas urged for China

By Jonathan Annells in Tokyo

Foreign investors were yesterday urged to plough money into China's natural gas infrastructure to help ease the country's dependance on coal and oil.

Investment in the industry would bring global benefits, preventing big increases in world oil prices, said Dr Hoesung Lee, of the Korea Energy Economics Institute.

Dr Lee told the Asia Pacific Energy Co-operation conference in Tokyo that China's energy usage was one of the most important issues facing Asia over the next 20 years.

Increasing use of natural gas would ease pressure on the regional oil supply and demand imbalance. Failure to make the switch would result in upward pressure on global oil prices as local shortages worsened. It would also mean further environmental degradation and undermine regional stability.

China is not represented at the two-day conference, in spite of the fact that it is a focus of attention. Participants stressed the importance of engaging the country positively in a collective approach to the common problem of reducing dependence on fossil fuels while pursuing economic growth.

To sustain its current level of growth, China will require energy supply to expand by about 4 per cent a year – four times the rate for industrialised countries. The country currently gets 80 per cent of its energy from coal.

Dr Lee said the other key concern was expected rapid growth in nuclear generating capacity in China, India, North Korea, Pakistan, the Philippines and Taiwan.

He said an expected rise in nuclear capacity would require strict monitoring of safety standards of the nuclear operations and radioactive waste disposal. At present, no such mechanism exists.

The conference also focused on privatisation and deregulation of power markets in the Asia-Pacific region. Delegates were also told that recent reviews of regulations in California and Thailand had swollen the ranks of Japanese attendees at the conference.

"This comes at an interesting time for Japan, because the issue of structural micro-reform of the domestic industry is under active discussion at the moment," said Mr Christopher Eves, an Australian lawyer and special counsel to the 1995 APEC conference energy working group.

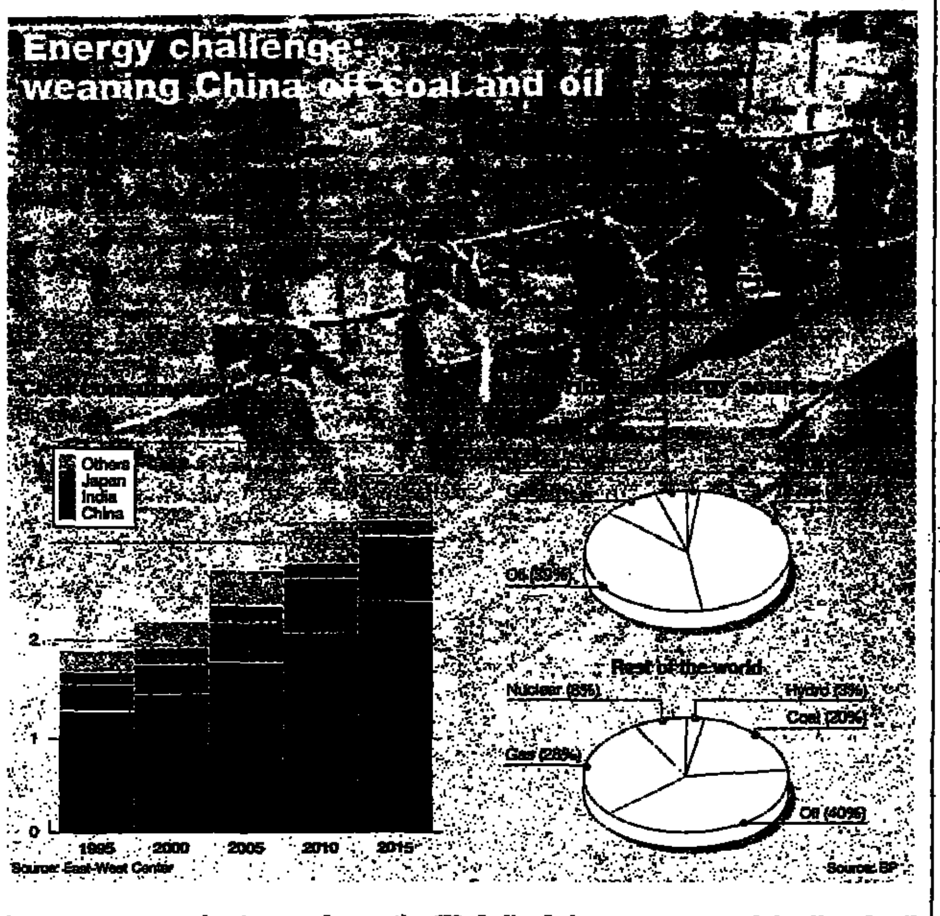
Mr Tokio Kanoh, managing director of Tokyo Electric Power and chairman of the London-based Uranium Institute, said he did not expect the conference to result in a pan-Asian energy treaty. But he stressed that reaching a consensus from the Asian point of view would be the most important achievement. "We should start to share the same atmosphere," he explained.

Mr Kanoh said he wanted to summarise the symposium's watchwords by the letters A, B and C. "We should step into the second stage, from agenda to action. B is for the move from bureaucracy to business involvement, and C from communication to collaboration in action," he said.

The conference – supported by Japan's ministry of trade and industry and the foreign ministry – has attracted delegates from Japan, the US, India, Indonesia, Thailand and South Korea, Australia and Canada.

They include policymakers, academics, representatives of power generators and distributors from both the private and state sectors, and leading fossil fuel exporting companies.

It continues today with discussion of Asia-Pacific energy investment, the prospects for coal and gas trade, and energy-related environmental problems confronting the region.



Five copper projects seen as 'surefire winners'

By Kenneth Gooding, Mining Correspondent

Only five out of 20 big new copper projects are likely to be "surefire winners", according to the CRU International consultancy.

"With the current run of high copper prices likely to be nearing its end, mining companies and financiers need to look very carefully at the economic and technical viability of the projects they are involved in," it warns.

CRU points out that a prolonged period of high profitability in the copper industry has given rise to an unprecedented number of copper mine projects under active consideration.

The 20 projects CRU examined could account for nearly 3m tonnes a year of new copper production and total capital expenditure of more than $13bn.

"Remote locations and resultant high costs of infrastructure development mean that economies of scale must be maximised from an early stage of production to ensure adequate rates of return," CRU says.

"As a result, these projects have to accept higher levels of financial exposure and risk than has previously been the case," it adds.

In its latest study, CRU ranks five copper projects as "outstanding" or "very good".

Collahuasi in Chile, a joint venture between Falconbridge, Minorco and a Japanese consortium, is the biggest, with annual production scheduled to be nearly 400,000 tonnes. CRU, using a long-term copper price of 90 US cents a pound ($1,984 a tonne) suggests Collahuasi will generate an internal rate of return well over 15 per cent and pay back its capital costs in four years.

Collahuasi could generate a positive return even if copper fell to 75 cents ($1,653), says CRU.

Inco's Voisey's Bay project in Labrador is the most financially attractive in the list, CRU suggests, but its copper will be a by-product of nickel mining.

CRU says the picture is not so bright for many other projects as it is for Collahuasi, with internal rates of return dropping below 10 per cent and pay-back periods increasing.

The big projects include Cambior's La Granja, in Peru; Agua Rica, a BHP-Northern Orion venture in Argentina; and Petaquilla in Panama (owned by Teck and Adrian Resources). Each has an estimated peak annual output of 260,000 tonnes.

Batu Hijau, the Newmont-Sumitomo joint venture in Indonesia, and Konkola Deep in Zambia, to be developed by Anglo American, Gencor and Falconbridge, also rank among the big producers and are among the more costly projects being considered.

The Next Generation of Copper Mine Projects. CRU, 40 Mount Pleasant, London WC1X 0AC, UK. £13,500.

Crude oil at lowest for six months

MARKETS REPORT

By Robert Corzine, Kenneth Gooding and Philip Coggan

Crude oil prices hit a six-month low yesterday as the slide which started two weeks ago gathered pace.

Brent Blend for April delivery, the North Sea crude that serves as a world benchmark, hit a low of $20.10 a barrel at one point on London's International Petroleum Exchange. It later recovered to around $20.42, 8 cents up on Monday's close of $20.34.

The mild winter on both sides of the Atlantic pushed heating oil prices down to levels last seen in July 1996. Gasoil futures on the IPE lost $1.75 to $175.75 a tonne.

Traders said the market was also awaiting the publication today and Thursday of the latest statistics on crude oil and refined product inventories in the US. These have been one of the main determinants in recent weeks of short-term price movements.

The London Metal Exchange yesterday reported that stocks of copper in its authorised warehouses had fallen by 1,100 tonnes – only the third decline since November.

Mr William Adams, analyst at Rudolf Wolff, the Noranda subsidiary, said that if copper stocks continued to fall, it would suggest that much of the recent increase had been lending by consumers who did not need their copper until a future date.

These consumers were attracted by the big premium for copper for immediate delivery compared with three-month metal, or backwardation. This had fallen sharply from a peak of more than $300 a tonne.

"Copper can just as easily be taken out of the warehouse now that the backwardation has shrunk," Mr Adams pointed out.

However, the premium increased yesterday from $60 on Monday to $77 a tonne in late trading.

Zinc prices, which have risen by 16 per cent or $172 a tonne since the begining of this year to $1,226, eased back by $6.50 from Monday's level to $1,213.

Mr Adams suggested there were keen trade and fund buyers in the market, so the price dip was likely to be short-lived.

Bullion traders said Swiss banks were behind a rise in platinum – up $3.70 a troy ounce to $367.70 in late London trading – and palladium, up $1.25 an ounce to $134.75. This helped gold, which was "fixed" in London yesterday afternoon at $345 an ounce and was $1.35 up at $345.60 by the London close.

Coffee fell sharply and then recovered after the resolution of an eight-day strike by government workers in Colombia. Speculative investors liquidated positions and the May contract in New York fell to 13 cents to 154 cents a pound at one stage.

However, light industry buying allowed the price to rally later. Coffee for May delivery closed in London down $55 at $1,560 a tonne.

"When the market gets overheated the way it has recently, the slightest event can cause an upset," one trader said. "Basically, some weak longs were flushed out of the market."

LME WAREHOUSE STOCKS
(As at Thursday's close)
tonnes

Aluminium	-5,050	to 910,625
Aluminium alloy	+20	to 73,180
Copper	-1,100	to 220,825
Lead	-650	to 110,100
Nickel	-120	to 45,774
Zinc	+1,125	to 476,725
Tin	-95	to 9,555

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE
(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1544.5-45.5	1578-79
Previous	1532.5-33.5	1565.5-66.5
High/low	1548.5/1548	1584/1573
AM Official	1548-48.5	1581-81.5
Kerb close		1583-84
Open int.	255,680	
Total daily turnover	70,413	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1544.5-45.5	1500-05
Previous	1455-65	1485-87
High/low		1510/1490
AM Official	1480-85	1508-10
Kerb close		1495-500
Open int.	5,733	
Total daily turnover	3,097	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	651.5-2.5	660-1
Previous	646.6-47.5	655-56
High/low	647	661/655
AM Official	646-47	656-56.5
Kerb close		657-8
Open int.	38,922	
Total daily turnover	11,967	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	7600-10	7700-02
Previous	7670-80	7768-69
High/low		7780/7640
AM Official	7635-45	7735-40
Kerb close		7650-55
Open int.	48,856	
Total daily turnover	15,211	

■ TIN ($ per tonne)

	Cash	3 mths
Close	6010-20	6050-60
Previous	5965-75	6015-20
High/low		6065/6020
AM Official	6020-30	6055-60
Kerb close		6065-70
Open int.	15,873	
Total daily turnover	8,418	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	1192.5-93.5	1215-16
Previous	1193-94	1215-16
High/low		1222/1212
AM Official	1197-97.5	1218-19
Kerb close		1212-13
Open int.	88,816	
Total daily turnover	30,737	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	2359-61	2285-86
Previous	2321-23	2265-66
High/low	2356/2355	2287/2271
AM Official	2354-55	2286-87
Kerb close		2285-86
Open int.	142,358	
Total daily turnover	54,876	

■ LME AM Official £/$ rate: 1.6030
LME Closing £/$ rate: 1.6005

Spot: 1.6032 3 mths: 1.6002 6 mths: 1.5970 9 mths: 1.5949

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Feb	109.95	+1.65	110.00	109.00	386	1,614
Mar	109.60	+1.90	109.70	107.60	6,431	22,123
Apr	107.50	+1.60	107.60	106.70	21	1,792
May	106.00	+1.50	105.90	104.90	1,166	9,211
Jun	104.70	+1.10	-	-	3	865
Jul	103.60	+1.10	104.20	103.10	44	4,750
Total					8,834	54,600

PRECIOUS METALS

■ LONDON BULLION MARKET
(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	345.00-345.50		
Opening	345.80-346.10		
Morning fix	346.00	215.36	512.88
Afternoon fix	345.00	215.14	508.63
Day's High	347.00-347.30		
Day's Low	344.10-344.40		
Previous close	344.00-344.50		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	3.82	6 months	3.97
2 months	3.88	12 months	3.97
3 months	3.90		

Silver Fix	p/troy oz.	US cts equiv.
Spot	326.30	523.15
3 months	330.75	529.30
6 months	335.40	535.90
1 year	345.05	548.90

Gold Coins	$ price	£ equiv.
Krugerrand	343-345	214-215
Maple Leaf	-	-
New Sovereign	81-84	51-52

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Feb	347.5	+1.1	348.7	346.8	633	2,709
Mar	347.5	+1.1	-	-	5,433	65
Apr	347.7	+1.0	349.5	346.0	34,657	96,602
Jun	349.7	+1.0	350.9	348.4	5,282	25,536
Aug	352.0	+1.0	353.2	350.6	326	10,610
Oct	354.4	+1.0	354.5	353.8	18	5,364
Total					43,591	197,165

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Apr	371.4	-0.6	374.5	365.2	2,181	19,765
Jul	373.4	-0.6	377.0	372.0	33	3,392
Oct	375.5	-0.6	379.0	374.0	13	2,407
Jan	377.8	-0.6	381.0	381.0	-	1,110
Total					2,227	26,674

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	137.00	+0.25	139.00	135.75	1,343	6,469
Jun	138.50	+0.50	140.25	137.25	1,002	4,840
Sep	139.50	+0.50	-	-	-	396
Dec	140.50	+0.50	-	-	34	114
Total					1,002	11,819

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Feb	520.7	-3.4	-	-	5	5
Mar	521.5	-3.7	525.5	519.0	30,143	49,735
May	526.4	-3.8	530.0	524.0	1,596	25,334
Jul	531.2	-3.7	535.0	529.0	668	9,957
Sep	535.9	-3.7	539.5	533.0	127	3,202
Dec	542.9	-3.7	546.5	540.0	497	5,237
Total					33,850	99,026

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Mar	22.43	+0.02	22.55	21.89	32,520	48,496
Apr	22.09	+0.06	22.20	21.56	26,248	72,317
May	21.75	+0.04	21.82	21.31	6,793	40,555
Jun	21.40	-0.04	21.55	21.05	3,943	37,908
Jul	21.15	-0.05	21.25	20.88	929	16,296
Aug	20.96	-0.02	20.96	20.73	263	16,007
Total					81,398	395,895

■ CRUDE OIL IPE ($/barrel)

	Sett price	Day's change	High	Low	Vol	Open int
Apr	20.39	+0.05	20.62	20.10	14,344	62,884
May	20.13	+0.06	20.28	19.86	3,625	27,892
Jun	19.87	+0.05	19.98	19.64	917	19,302
Jul	19.66	+0.05	19.78	19.46	1,641	11,954
Aug	19.51	+0.05	19.57	19.40	770	4,239
Sep	19.36	+0.04	19.45	19.18	374	5,688
Total					8,833	147,825

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Mar	58.85	-0.36	60.20	58.50	10,336	30,097
Apr	58.35	-0.48	58.70	57.10	6,012	25,918
May	57.00	-0.28	57.20	56.00	1,770	9,357
Jun	56.30	-0.33	56.50	55.50	950	8,030
Jul	56.40	-0.03	56.40	55.60	1,100	6,405
Aug	56.70	-0.08	56.70	56.00	417	3,984
Total					23,878	104,512

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	175.00	-2.50	178.00	174.25	6,935	19,873
Apr	175.25	-0.75	176.25	173.00	3,480	9,358
May	174.75	-1.00	175.25	173.00	723	4,740
Jun	174.75	-1.50	176.00	173.00	1,157	8,359
Jul	175.25	-1.50	176.25	176.25	5	3,640
Aug	176.00	-1.25	176.75	174.75	214	1,088
Total					8,283	58,766

■ NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu.)

	Latest price	Day's change	High	Low	Vol	Open int
Mar	1.930	-0.036	1.945	1.850	13,705	30,725
Apr	1.850	-	1.975	1.870	4,047	26,611
May	1.945	-0.005	1.950	1.910	1,263	14,721
Jun	1.950	-0.010	1.960	1.925	803	10,039
Jul	1.960	-0.015	1.965	1.945	541	9,804
Aug	1.975	-0.010	1.980	1.950	608	7,817
Total					24,096	169,615

■ UNLEADED GASOLINE
NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Mar	64.40	+0.15	64.50	63.20	9,807	25,496
Apr	65.85	+0.02	65.90	64.75	5,906	26,195
May	65.55	-0.05	65.65	64.60	2,272	14,919
Jun	64.80	+0.07	64.75	63.70	1,006	9,279
Jul	63.25	-0.08	63.25	62.70	398	5,010
Aug	61.50	-0.33	61.50	61.30	163	4,027
Total					19,849	87,906

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (£ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	95.00	+2.50	95.00	92.75	97	842
May	98.00	+2.50	98.00	95.90	954	3,011
Jul	100.00	+2.50	100.00	98.00	112	559
Sep	93.35	+2.00	92.00	92.00	1	32
Nov	95.35	+2.00	96.00	94.00	104	1,713
Jan	97.35	+2.00	97.50	95.75	18	201
Total					1,286	6,383

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	364.25	+4.75	370.00	361.50	4,637	21,696
May	363.00	+5.75	365.00	358.00	2,336	19,323
Jul	347.75	+5.00	350.00	343.50	1,957	28,185
Sep	351.75	+5.75	352.50	347.00	102	2,417
Dec	360.50	+3.50	362.00	358.00	51	2,132
Mar	360.50	+3.00	-	-	-	30
Total					9,092	73,970

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	282.75	+8.75	283.00	275.00	29,087	97,719
May	284.00	+10.25	285.00	275.50	17,931	90,874
Jul	281.50	+9.50	282.00	273.50	13,005	74,735
Sep	275.50	+7.50	276.00	269.00	1,680	11,674
Dec	274.75	+6.75	275.00	269.25	5,819	48,905
Mar	280.50	+6.50	280.75	275.25	578	3,858
Total					68,415	331,026

■ BARLEY LIFFE (£ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	92.75	+0.50	92.90	92.25	12	234
May	94.25	+1.00	94.25	94.00	40	132
Sep	91.90	+1.00	-	-	-	28
Nov	93.90	+1.00	93.75	93.75	5	303
Jan	95.90	+1.00	95.75	95.75	5	27
Total					62	724

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	779.00	+18.00	780.75	763.50	28,088	60,804
May	779.00	+18.00	780.50	764.00	12,821	46,649
Jul	777.50	+16.00	779.00	764.50	5,805	37,520
Aug	771.50	+14.25	773.00	761.00	597	6,445
Sep	735.00	+11.25	736.00	728.00	218	2,325
Nov	704.75	+7.75	705.00	699.50	3,042	19,753
Total					50,609	174,607

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	23.93	+0.26	23.98	23.68	10,124	32,758
May	24.31	+0.22	24.40	24.10	6,455	26,682
Jul	24.67	+0.22	24.75	24.50	2,131	16,722
Aug	24.79	+0.16	24.87	24.65	30	3,242
Sep	24.91	+0.16	25.00	24.80	24	2,715
Oct	25.05	+0.16	25.05	25.00	89	933
Total					19,453	89,791

■ SOYABEAN MEAL CBT (100 tons; $/ton)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	255.6	+7.4	255.9	248.9	8,595	32,624
May	249.9	+7.0	250.4	243.3	5,367	26,928
Jul	246.5	+6.3	247.2	241.0	4,418	23,444
Aug	242.7	+5.4	243.2	238.0	373	4,470
Sep	235.0	+4.8	235.5	230.5	297	2,923
Oct	222.1	+4.1	222.1	218.5	113	1,347
Total					20,476	96,583

■ POTATOES LIFFE (£/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	57.5	+1.5	-	-	-	-
Apr	63.0	+1.5	63.5	60.0	38	1,077
May	71.0	+2.0	71.0	71.0	12	157
Jun	74.5	-1.0	-	-	-	-
Nov	64.0	-1.5	-	-	-	2
Apr	107.0	-3.0	109.0	107.0	28	620
Total					68	1,856

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

	Sett price	Day's change	High	Low	Vol	Open int
Feb	1470	-40	1500	1465	30	342
Mar	1540	-20	1550	1535	89	605
Apr	1541	-24	1550	1540	77	1,240
Jul	1270	-20	1270	1270	9	624
Oct	1406	-	-	-	-	213
Jan	1416	-	-	-	-	49
Total					205	3,073

	Close	Prev
BFI	1467	1465

FUTURES DATA
All futures data supplied by CMS.

Minor Metals
European free market, from Metal Bulletin, $ per lb in warehouse, unless otherwise stated (last week's in brackets, where changed). **Antimony:** 99.65%, $ per tonne, 2,280-2,425 (2,300-2,425). **Bismuth:** min. 99.99%, tonne lots 2.95-3.25 (2.95-3.20). **Cadmium:** min. 99.95%, cents a pound, 65.00-75.00 (68.00-78.00). **Cobalt:** MB free market, min. 99.8%, 19.50-21.00 (19.80-21.00); min. 99.3%, 18.00-18.50 (18.70-19.20). **Mercury:** min. 99.99%, $ per 76 lb flask, 161-171. **Molybdenum:** drummed molybdic oxide, 4.75-4.90 (4.70-4.90). **Selenium:** min 99.5%, 2.40-3.30. **Tungsten ore:** standard min. 65%, $ per tonne unit (10kg) WO_3, cif, 45-55 (43-53). **Vanadium:** min. 98%, cif, 3.80-4.00 (3.50-3.70). **Uranium:** Nuexco unrestricted exchange value, 12.60 (13.00).

SOFTS

■ COCOA LIFFE (£/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	853	+4	855	845	1,518	20,643
May	880	+6	882	871	2,229	27,039
Jul	900	+6	901	891	363	13,113
Sep	919	+6	916	910	181	14,821
Dec	935	+6	934	926	297	15,918
Mar	955	+6	960	947	343	19,777
Total					5,156	130,945

■ COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	1225	-2	1230	1220	782	2,272
May	1267	-18	1273	1254	3,889	35,931
Jul	1297	-19	1302	1295	340	18,120
Sep	1327	-18	1333	1325	255	10,231
Dec	1354	-18	1355	1350	289	5,694
Mar	1383	-15	1381	1376	4	12,661
Total					5,559	90,408

■ COCOA (ICCO) (SDR's/tonne)

Feb 14	Price	Prev. day
Daily	973.45	976.92

■ COFFEE LIFFE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	1540	-60	1595	1538	3,157	12,256
May	1555	-60	1605	1550	3,671	21,784
Jul	1580	-63	1625	1575	1,542	8,902
Sep	1582	-63	1624	1590	117	3,406
Nov	1582	-63	1610	1600	28	1,550
Jan	1582	-63	1610	1610	5	199
Total					8,720	49,197

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	168.10	-9.75	177.50	167.00	6,156	10,692
May	157.25	-9.75	165.70	154.00	7,956	18,536
Jul	151.50	-9.40	159.00	154.90	1,294	5,875
Sep	144.50	-8.70	151.50	147.20	645	3,559
Dec	136.25	-8.55	145.00	138.80	435	2,451
Mar	127.75	-11.90	137.50	133.65	64	532
Total					16,560	41,742

■ COFFEE (ICO) (US cents/pound)

Feb 17		Prev. day
Comp. daily	na	128.53
15 day average	na	115.54

■ WHITE SUGAR LIFFE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
May	307.5	+3.8	307.5	303.4	782	12,317
Aug	307.1	+3.2	306.2	303.5	384	3,302
Oct	302.9	+3.3	302.9	299.5	107	2,604
Dec	303.0	+2.9	300.5	299.9	8	722
Mar	300.7	+0.1	301.1	299.5	115	443
May	298.7	-2.9	298.9	298.9	7	153
Total					1,303	19,541

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	10.92	+0.14	10.92	10.78	15,361	42,797
May	10.88	+0.14	10.88	10.74	7,694	40,954
Jul	10.65	+0.11	10.65	10.54	1,633	28,946
Oct	10.59	+0.09	10.59	10.50	374	21,027
Mar	10.56	+0.08	10.56	10.48	552	7,837
May	10.58	+0.08	10.55	10.55	50	1,198
Total					25,784	143,384

■ COTTON (Latest) (50,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	71.65	-1.45	73.70	70.85	3,582	15,081
May	73.00	-1.65	75.28	73.00	3,141	25,962
Jul	74.80	-1.05	76.25	74.80	1,247	10,545
Oct	76.00	-0.25	76.55	76.00	16	1,413
Dec	76.00	-0.25	76.45	75.97	471	13,059
Mar	77.10	-	77.20	77.10	-	909
Total					8,464	67,604

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	78.70	+0.20	79.70	78.50	2,116	9,190
May	81.60	+0.25	82.50	81.40	1,963	9,782
Jul	84.60	-0.05	85.60	84.50	1,415	3,858
Sep	87.60	+0.15	88.60	87.60	215	2,959
Nov	89.85	+0.30	90.75	90.25	32	637
Jan	92.15	+0.65	92.40	92.25	14	258
Total					5,757	28,807

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open interest totals are for all traded months.

INDICES

■ Reuters (Base: 18/9/31 = 100)

Feb 18	Feb 17	month ago	year ago
1981.9	1973.6	1929.6	2152.3

■ CRB Futures (Base: 1967 = 100)

Feb 14	Feb 13	month ago	year ago
239.51	239.51		

■ GSCI Spot (Base: 1970 = 100)

Feb 14	Feb 13	month ago	year ago
192.79	192.79	214.95	194.68

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Feb	65.675	+0.425	65.750	65.350	1,375	4,031
Apr	68.575	+0.125	68.700	68.275	4,774	42,052
Jun	63.725	-0.250	63.950	63.550	2,143	18,143
Aug	63.375	-0.350	63.600	63.300	1,120	18,725
Oct	67.075	-0.250	67.325	67.000	753	11,799
Dec	69.325	-0.050	69.500	69.200	240	4,398
Total					10,461	101,444

■ LEAN HOGS CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Apr	72.075	-1.125	72.850	72.000	4,597	15,887
Jun	77.450	-1.025	77.850	77.250	1,899	8,952
Jul	76.100	-0.525	76.300	75.875	347	1,950
Aug	73.100	-0.150	73.375	72.825	226	2,209
Oct	66.250	-0.575	66.700	66.150	92	1,492
Dec	64.200	-0.325	64.500	63.950	72	798
Total					8,632	34,008

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Feb	73.175	-3.000	74.800	73.175	431	616
Mar	73.375	-2.200	74.850	72.575	1,287	2,305
May	73.950	-2.225	75.600	73.300	1,051	3,508
Jul	73.150	-2.050	74.950	72.700	234	802
Aug	69.450	-2.600	72.000	69.450	44	521
Total					3,047	7,752

LONDON TRADED OPTIONS

Strike price $ tonne	Calls		Puts	
■ ALUMINIUM (99.7%) LME	Mar	Jun	Mar	Jun
1525	44	94	9	31
1550	28	80	18	41
1575	16	66	31	52
■ COPPER (Grade A) LME	Mar	Jun	Mar	Jun
2200	143	128	3	69
2250	99	101	9	91
2300	62	79	22	119
■ COFFEE LIFFE	Mar	May	Mar	May
1500	45	132	5	5
1550	13	106	23	23
1600	2	85	62	62
■ COCOA LIFFE	Mar	May	Mar	May
800	53	83	-	3
850	6	44	3	14
900	-	29	22	24
■ BRENT CRUDE IPE	Apr	May	Apr	May
1950	116	127	27	64
2000	82	100	43	870
2050	57	79	68	116

LONDON SPOT MARKETS

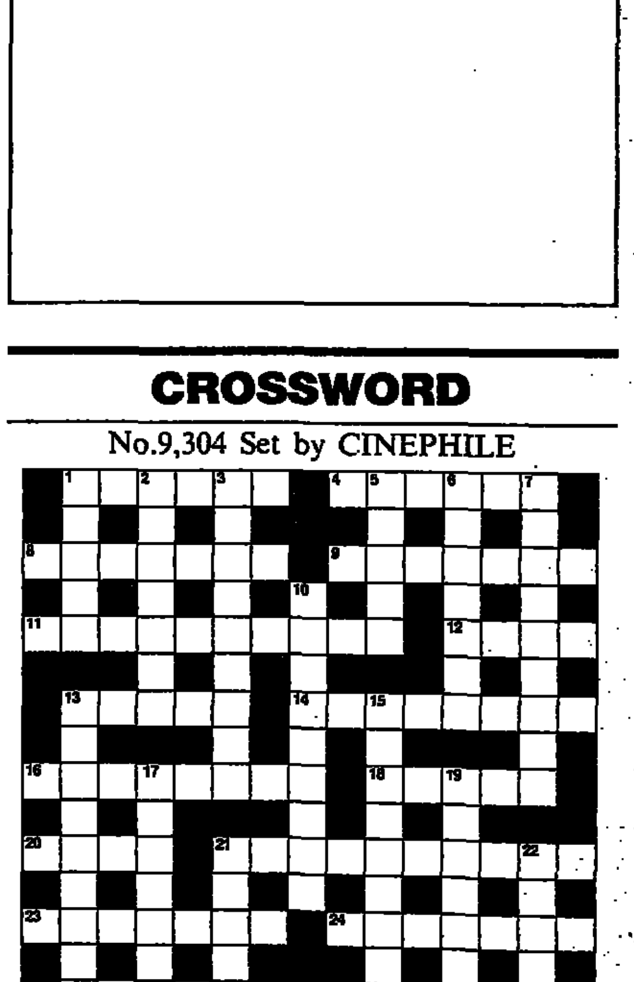
■ CRUDE OIL FOB (per barrel)		+or-
Dubai	$18.53-8.63w	+0.14
Brent Blend (dated)	$20.61-0.69	+0.14
Brent Blend (Apr)	$20.46-0.50	+0.14
W.T.I.	$22.05-2.07w	+0.16
■ OIL PRODUCTS NWE prompt delivery CIF (tonne)		
Premium Gasoline	$214-216	
Gas Oil	$175-177	-2.5
Heavy Fuel Oil	$95-97	
Naphtha	$219-223	
Jet fuel	$200-202	-2
Diesel	$192-195	-4
■ NATURAL GAS (Pence/therm)		
Bacton (Mar)	9.80-10.20	-0.15
Petroleum Argus. Tel. London (0171) 359 8792		
■ OTHER		
Gold (per troy oz)♣	$345.25	+1.00
Silver (per troy oz)♣	523.00c	+2.00
Platinum (per troy oz.)	$368.75	+5.00
Palladium (per troy oz.)	$134.75	+1.50
Copper	114.0c	
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	14.68r	+0.08
Tin (New York)	276.50	+2.00
Cattle (live weight)	102.94p	+0.18*
Sheep (live weight)	142.28p	+0.43*
Pigs (live weight)†	79.77p	+2.78*
Lon. day sugar (raw)	$263.60	
Lon. day sugar (wte)	$307.40	-0.10
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	Unq	
Wheat (US Dark North)	Unq	
Rubber (Mar)¥	79.50p	
Rubber (Apr)¥	79.50p	
Rubber (KL RSS No1)	303.5x	
Coconut Oil (Phil)§	775.0y	-7.5
Palm Oil (Malay.)§	572.5x	
Copra (Phil)§	$495.0y	
Soyabeans (US)	212.0x	+1.0
Cotton Outlook'A' index	80.10	+0.20
Wooltops (64s Super)	403p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. x Mar w Apr y Feb/Mar¥ London Physical. § CIF Rotterdam. ♣ Bullion market close. * Change on week. †Based on 4,335 head of pigs sold.

JOTTER PAD

CROSSWORD

No.9,304 Set by CINEPHILE

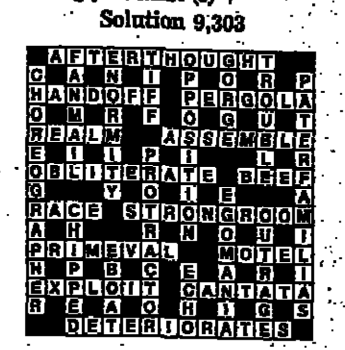


LM has the same meaning wherever it appears in the clues.

ACROSS
1 LM's potato (6)
4 Crazy fellow's plan about military assistant (6)
8 One flies round Beachy Head: it blows when they're close (7)
9 Snoop around border first and foremost (7)
11 Declare solemnly, donkey never stopped eating (10)
12 Greeting with stones (4)
13 Youngster meets the French LM (5)
14 Principal ideology – of nineties Tories? (8)
16 Business friend in trouble – his lips weren't sealed (8)
18 LM on his own point (5)
20 Having nothing to do with Ridley's part (4)
21 Reporting back and being fired, sadly (10)
23 Return a measure of work to bogus LM (7)
24 I got into bed very much on one side (7)
25 LM went off and on (6)
26 S-stinking with contempt (6)

DOWN
1 LM ambles along, we hear (5)
2 Fall backwards or upwards on line for removal by daylight? (7)
3 Clue for H? Nebula in Orion on a stick for a hobby? (9)
5 Say Yes to an uncompleted craving (5)
6 Vehicle with zero speed in it should be put in mothballs (7)
7 Leave vehicle at home with child LM (9)
10 LM, initially he allotted me my usual role as blithering idiot (9)
13 Small relative, daring hurt, shows unconcealed amusement (5,4)
15 LM only in single article (9)
17 Anxiety at something proverbial shown by woodcutter (4,3)
19 Student, provided he's upper-class, going for the moon? (4-3)
21 LM striking a cord (5)
22 Poor old marshal entertaining journalist (5)

Solution 9,303



FT MANAGED FUNDS SERVICE

Offshore Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

Fidelity Currency Funds Ltd

Prudential Fund Managers (Guernsey) Ltd
Po Box 81, St Peter Port Guernsey 01481 707000

Saudi International (Guernsey) Ltd
Falcon High Income $117.31 118.45

Schroder Investment Magmt (Guernsey) Ltd

Global Asset Management

Tilney (Ireland) Ltd
US Mid Cap ..... $11.21 -0.02

Global Resources Stock Fund

Goldman Sachs

Gordon House Asset Management Ltd

HSBC UK Equity Plus Plc

HSBC UK Equity Plus II Plc

Ulster Bank Investment Services

Value Express Fund Plc

Yamaichi Samsung Dynamic Korea Fund

Prudential Fund Managers (Jersey) Ltd
PO Box 103, St Helier, Jersey 01534 506000

Royal Bank of Scotland Fd Mgrs (Jersey) Ltd

Royal Bank of Scotland International Ltd

IRELAND (REGULATED)(**)

AIB Fund Management Ltd

BERMUDA (REGULATED)(**)

GUERNSEY (SIB RECOGNISED)

IRELAND (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

JERSEY (REGULATED)(**)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

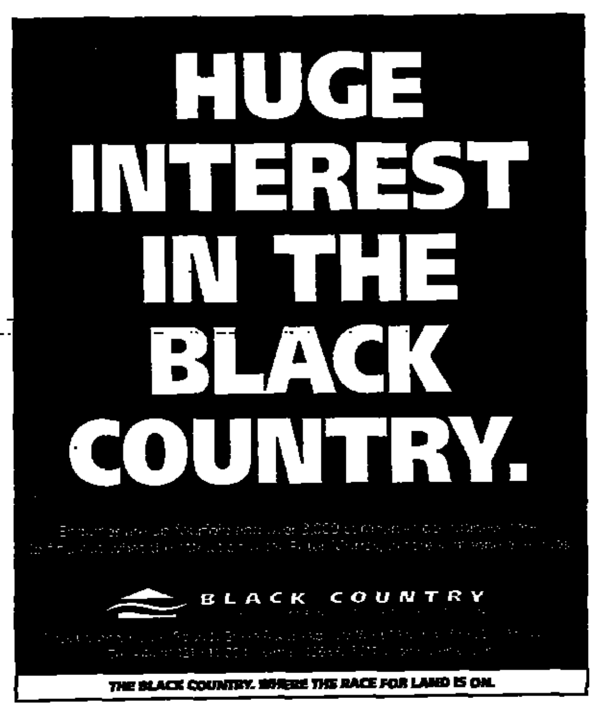
LUXEMBOURG (SIB RECOGNISED)

Baring Mutual (Ireland) Ltd

Umbrella Fixed Inc	$13.02	13.42	—	0.00
Pacific Emerging 94 A	$72.20		—	0.00
Pacific Emerging 94 B	$90.58		—	0.00
Latin America	$8.93		+0.02	0.00
Taiwan Fund NAV	$11.70		—	0.00

Berkshire KTIC Growth Fund Plc

NAV	$5.94	+0.09	-



Murray Johnstone (Dublin) Ltd
Europa House, Harcourt St, Dublin 2 3531 407 2000
Murray Global Accumulation Fund Plc

Murray Financials Bond . 2	105.86	+0.03	6.09

Odey Asset Management Ltd
80 Harcourt Street, Dublin 2 00 3531 780 2400

Odey European Gth Inc	DM187.05	—	-
Odey European Gth Acc	DM187.74	—	-
Odey European Gth Inc	258.06	—	-
Odey European Gth Acc	258.33	—	-

Old Mutual International Fd Mngrs Ltd (a)

Berkshire Korea Fund Plc

NAV	$1.56	-0.21	-

Blackstone Franks Managers Ireland Ltd

Bordier Invest (Ireland) Ltd

Invest Rouse Fd NAV Feb 14	$63.73	—	-

Buchanan Asset Management (Ireland) Ltd

Japan Performance B	$7.4257	—	-
UK Performance	£11.3679	—	-

Offshore Funds and Insurances

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

Abtrust Fund Mngrs Luxembourg SA (z)

4 Boulevard Royal L 2449 Luxembourg 00 352 [illegible]

Abtrust Atlas Fund

	Init Notes Charge	Selling Price	Buying Price	+ or -	Yield Gr's
Global Cap Portfolio		$3.998		-0.016	-
United States Portfolio		$6.077xd		-0.001	-
Contl Europe Portfolio	0	DM7.667		+0.024	-
Japan Portfolio		£0.588		—	-
Pacific Portfolio		$6.057		-0.018	-
Gold Portfolio		$6.104		-0.016	-
UK Growth of Income		£2.2730		+0.003	3.61
Dollar Portfolio		$1.4823		—	7.00
Sterling Portfolio		£1.0843		—	6.30

Aetna Master Fund (u) (x)

21 avenue de la Liberte, L-1931, Lux 00 352 2854 941

	Init Notes Charge	Selling Price	Buying Price	+ or -	Yield Gr's
Australasian NAV		A$17.65		+0.06	-
Austrian Nat NAV		Sch67 14		-0.19	-
Belgo/Lux NAV		BFr898.82		-0.37	-
Dutch Nat NAV		Dfl48.02		+0.58	-
French Nat NAV		FFr151.83		+0.58	-
German Nat NAV		DM20.98		-0.04	-
Hongkong Nat NAV		HK$134 10		+0.05	-
Italian Nat NAV		L14101		-163	-
Japanese Nat NAV		Y1174		-1	-
Spanish Nat NAV		Pta1545		+8	-
UK Nat NAV		£11.16		+0.03	-
United States Dlr Res		$11.15		—	-

Prices quoted are "A" shares

American Phoenix Investment Portfolios (u)

Fleming Group (u)

LUXEMBOURG (REGULATED)(**)

OFFSHORE INSURANCES

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

Old Mutual International (Guernsey) Ltd

PO Box 121, St. Peter Port Guernsey 01481 726726

Sun Alliance International Life

PO Box 77, St Peter Port, Guernsey 01481 714108

	Selling Price	Buying Price	+ or -	Yield Gross
US Dollar Global Managed	$2.17	2.34	—	-
Stg Global Managed	$2.12	2.29	—	-

Sun Life International (IOM) Ltd

Tel: 44 (0) 1624 625000 Fax: 44 (0) 1624 625919

OTHER OFFSHORE FUNDS

ATSP Management Ltd

Philippines Long Term Equity

	Selling Price	Buying Price	+ or -	Yield Gross
NAV Jan 31		$43.82	—	-

AXA Asset Management

Acciones y Valores de Mexico SA de CV

	Selling Price	Buying Price	+ or -	Yield Gross
Accival Feb 17		Pesos65.10	+0.18	0.25

Africa Emerging Markets Fund

	Selling Price	Buying Price	+ or -	Yield Gross
NAV Jan 13		$12.58	—	-

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

CHEMICALS

CHEMICALS - Cont.

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ENGINEERING

ENGINEERING - Cont.

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
Rubicon		121½xd	—	208	100	108.6	6.2	8.7
Senior		118½	—	125	92½	380.5	3.7	16.3
Severfield-Rwe		362½	—	365½	156	71.3	1.3	28.8
Siebe		984½xd	-2	1008½	779	4,582	1.8	20.0
Simon Eng'g		32½	-½	88	30	81.2	2.5	12.1
600 Group		161½	—	381	127½	83.8	3.0	3.0
SKF SKr		915½	+¼	21587	£12½	995.5	2.8	♣
Spirax-Sarco		677½	-6½	780½	593	534.5	2.5	18.9
Stadium Group		152½	+1	182½	123	42.5	3.3	♣
Sterling Inds		282½	-1½	328	288	88.9	3.8	14.7
Superframe		28½	—	43	15	1.82	7.9	19.5
TI Group		524	-2½	580½	456	2,484	3.2	16.7
Tex		112½xd	—	152½	40	7.08	2.2	11.5
Thyssen DM		225½	+¾	6258	£20½	738.5	12.5	—
Tinsley (Eliza)		113½	—	128	82	18.5	6.5	11.8
Torday Carlisle		44½	—	48	38½	7.16	—	12.7
TransTec		118	+1	*121	73	182.4	2.8	18.8

EXTRACTIVE INDUSTRIES - Cont.

FOOD PRODUCERS

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
Northumbrian		17¼	-¼	19¼	10¾	19.8	1.1	8.3
Pascoe's		96	—	118	80	2.81	–	♣
Pangolaan (UK)		3¼	—	11	2½	2.57	–	♣
Perkins		78	—	*86	67¾	121.8	7.1	11.3
Plantation & Gen		61½	+6	64	44½	18.7	4.1	–
Polybead (CP) $		21½	-½	34	19	322.3	3.7	11.3
Robert Wiseman		177½xd	-½	188½	135	132.9	2.3	18.1
Rowe Evans		118½	—	138	105	56.4	3.4	10.7
Sentry Farming		142½	—	*263	98	10.7	3.0	9.6
Shaws		32	—	38	18	11.8	–	–
Tate & Lyle		443½	-3	514½	425	1,947	4.8	11.3
7¼p Cv Rd Pf		209½	—	221½	192	61.9	4.5	–
Treats Group		114½	—	178	82½	12.8	1.8	7.3
Tsaat		168	—	388	150	17.8	4.3	14.8
Unigate		457½	-1	464½	392	1,887	5.3	11.6
Unilever		1682½	-7	1823½	1172½	13,080	2.5	♣
Unilever NV Fl		£118½	+¼	£119½	£85¾	19,118	1.9	♣
United Biscuits		234	+1	269	194½	1,234	5.3	48.7

ENGINEERING - Cont.

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
Triplex Lloyd		198½xd	-2	212½	139	129.1	4.5	11.1
Turnpike		13½	—	18	9½	3.00	4.5	15.2
Tyzack Precision		75½	—	84½	38	12.4	5.0	8.5
Ultra Electronics		304½	—	332½	282½	197.9	2.7	20.6
Unicorn Intl		167½	—	167½	134	61.8	4.1	14.9
United Industries		65½	+½	82½	47½	29.3	4.3	10.7
Vickers		250½	-1	288	241	871.5	3.4	16.0

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

FOOD PRODUCERS - Cont.

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
Usborne		18	—	22½	8½	7.79	6.9	8.7
WT Foods		32	-3	55½	24½	17.2	5.3	21.8
Waterford A IE		87	—	118	80	58.3	4.0	7.3
Whitchurch		27	—	81	22½	7.75	7.4	–
Yorkshire Food		12¼	—	91	11½	6.67	8.6	–

GAS DISTRIBUTION

HEALTH CARE

HOUSEHOLD GOODS

INSURANCE

INSURANCE - Cont.

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

INV TRUSTS SPLIT CAPITAL

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

LEISURE & HOTELS

LIFE ASSURANCE

MEDIA

MEDIA - Cont.

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

PAPER, PACKAGING & PRINTING

PAPER, PACKAGING & PRINTING - Cont.

PHARMACEUTICALS

PROPERTY

PROPERTY - Cont.

RETAILERS, FOOD

RETAILERS, GENERAL

RETAILERS, GENERAL - Cont.

SUPPORT SERVICES

SUPPORT SERVICES - Cont.

TELECOMMUNICATIONS

TEXTILES & APPAREL

TEXTILES & APPAREL - Cont.

TOBACCO

TRANSPORT

WATER

AIM

AIM - Cont.

AMERICANS

CANADIANS

SOUTH AFRICANS

	Notes	Price	+ or -	52 week high	52 week low	Mkt Cap£m	Yld Gr's	P/E
Anglo Am Ind	g	£24½	+1⅛	*£31¾	£20¼	1,955	3.1	ϕ
Barlow	ϕ	£7½xd	+⅝	£9⅝	£5⅛	1,476	2.1	14.7
Gold Flds Prop R	†	140½	+1½	159	120	14.4	6.5	10.3
NK Props		85	—	95	80	2.81	13.8	-
SASOL	ψ	645	-7	710	517	3,777	1.7	-
SA Brews		£19⅞xd	+⅛	£24¼	£13¾	5,024	1.8	ϕ
Standard Bank		£25½	—	£31½	£21	3,085	1.4	22.3
Tiger Oats		790	—	1176	770	1,189	2.3	15.3
Tongaat-Hulett		772½	+7½	1139	676½	781.5	2.4	ϕ

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid-prices over a rolling 52 week period.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Earnings used in calculations are based on IMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- • Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ϕ Figures or report awaited
- ψ Rule 2.1(a)(v) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- § Price at time of suspension.
- ¶ Indicated dividend yield after pending scrip and/or rights issue
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
z Dividend yield includes a special payment

F Yield based on prospectus or other official estimates for 1996-97.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1997.
K Yield based on prospectus or other official estimates for 1996
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1995-96.
Il Dividend is paid in whole or part as a

FID (Foreign Income Dividend)
R Forecast annualised yield, p/e based on prospectus or other official estimates.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations:
xd ex dividend;
xc ex scrip issue;
xr ex rights;
xa ex all;
xf ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1425 a year for each security shown, subject to the Editor's discretion

LONDON STOCK EXCHANGE

Footsie sags on disappointing bank figures

MARKETS REPORT

By Peter John

London equities failed to respond to some surprisingly positive economic data and concentrated instead on the prospects for Wall Street.

Consequently, muted profit-taking remained the theme of the day and the FTSE 100 index closed 5.5 lower at 4,332.3.

On the other hand, the FTSE 250, which is less exposed to international pressures, rose 6.2 to 4,612.7 and the SmallCap improved 2.4 to 2,343.4.

There was no lead from Wall Street, because US dealers were celebrating Presidents' Day holiday on Monday. But an early mark-down was reversed as the Footsie futures led the index higher.

At its best, shortly after the start of trading, the blue chip index was 13.1 points up and only 2.5 points below its record high achieved last Friday. From then on, it wrestled with contrasting pieces of news.

On the broader economic front, the latest public sector borrowing figure showed a repayment of £5.8bn against economists' forecasts that were some £2bn lower.

The removal of pressure on government bond issuance sent gilt prices up by some 10 ticks at the 10-year maturity.

Also, sterling softened against both the US dollar and the D-Mark, easing some of the pressure on UK exporters.

It helped to assuage doubts which were highlighted by a report that some strategists were reducing current year earnings estimates by 3-4 per cent to reflect the strength of the pound.

These encouraging domestic economic nuggets were offset by a sharp reversal of fortune in Barclays shares after the high street bank disappointed the market with its figures and the fact that its share buy-back would not occur immediately.

Banks are the largest component of the market, representing 12.6 per cent of the FTSE All-Share index. Over the past year they have been one of the strongest performing sectors in the market. As such, the stark performance of Barclays spilled over to sector rivals and sent some nervous signals through the market.

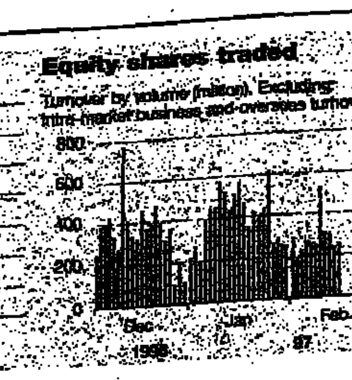
However, several traders and strategists have pointed to the underlying strength of the banks' earnings and the huge influx of capital which is expected after the flotation of the big building societies.

"It is an area which has got a lot further to go. They will benefit increasingly from the 'flight to quality' argument," said Mr Corey Miller, equity strategist at Credit Lyonnais Laing.

In the afternoon, the Dow Jones Industrial Average started slightly weaker and its recovery came too late to lend any support to London shares.

Trading volume by 6pm rose to 884.5m shares, up from Monday's level of 726.1m shares when genuine customer business was worth £2.16bn. That figure combined the traditional checking business with the electronic Crest data.

Meanwhile, business between marketmakers accounted for £836m.



Indices and ratios

FTSE 100	4332.3	−5.5
FTSE 250	4612.7	+6.2
FTSE 350	2139.3	−1.6
FTSE All-Share	2111.96	−1.21
FTSE All-Share yield	3.53	3.51

FT 30	2843.3	−2.5
FTSE Non-Fins p/e	18.36	18.44
FTSE 100 Fut Mar	4328.0	+3.0
10 yr Gilt yield	7.12	7.16
Long gilt/equity yld ratio	2.07	2.07

Best performing sectors

1. Tobacco ... +1.2
2. Diversified Industrials ... +0.7
3. Alcoholic Beverages ... +0.5
4. Other Financial ... +0.4
5. Investment Trusts ... +0.4

Worst performing sectors

1. Engineering: Vehicles ... −1.1
2. Electronic & Elect Equip ... −0.7
3. Building Matls & Merchs ... −0.6
4. Textiles & Apparel ... −0.5
5. Life Assurance ... −0.4

BZW hit batters Barclays

By Joel Kibazo and Lisa Wood

Holders of Barclays were left bruised and battered yesterday as the market registered its disappointment with the group's preliminary figures and the lack of an immediate one-off share buy-back.

The shares lost nearly 6 per cent of their value as they tumbled 70½ to 1129p, the worst performer in the FTSE 100. The heavy selling pressure brought volume of 27m by the close.

Headline profits at the UK banking group fell short of the best market estimates, although many had anticipated the poor performance at BZW, the investment banking arm, following weekend press reports.

However, the optimists had expected to be soothed by plans for an immediate share buy-back, one of the main reasons for the recent strength of the stock.

Instead, the group announced plans to return up to £500m to shareholders over the next 12 months, news which failed to excite the market and instead prompted increased selling of the shares.

Sentiment was also hit by sharp profit downgrades. HSBC James Capel is believed to be looking to reduce its current profit expectations for Barclays to around £2.3bn from its previous forecast of £2.48bn. Dealers said the broker had also reduced its recommendation from "buy" to "hold".

However, Merrill Lynch remains more positive and analyst Mr Richard Coleman said: "The BZW figures were clearly disappointing and the share price reaction is understandable. But we remain positive, the banking business has performed well and capital generation remains intact.

"We are also expecting further share buy-backs in the course of the year."

The poor sentiment in Barclays also weakened National Westminster where the shares surrendered 31 to 803½p. The group reports figures later this month.

Argos lifted

Argos was the best performer in the FTSE 100, hardening 21¼ to 695p, with the market more positive on its revenue growth prospects, taking the view that the recent slow-down in sales was a one-off problem rather than structural. UBS earlier in the week changed from a "hold" to a "buy" with the broker believing that the froth in the share price was blown off in the recent profits warning.

Great Universal Stores rose 12½ to 662½p in the wake of the announcement that it was in talks with British Land over a property deal.

Boots slipped 13 to 688p with UBS moving the stock from its "buy" list to "hold", with a recommendation that investors should switch into Marks and Spencer, which rose 2½ to 489p.

Britannic boost

Shares in life group Britannic Assurance secured pole position in the FTSE 250 index, the shares appreciating 66½, or 8.2 per cent, to 870p, after the group revealed plans for a sharply increased dividend to be underpinned by the distribution of an orphan asset investment surplus.

The company also said that the impact of its restructuring of its with-profits funds and the declaration of a £209m special bonus should mean it will be able to pay a dividend for 1996 of 23 pence per share, up 82 per cent on 1995.

However, shares in Prudential fell 8½ to 564½p as dealers said confusion continued to surround the life and pension giant's unallocated funds.

Capital Corporation, which has rejected a £178m hostile bid from London Clubs, continued to strengthen, rising 10 to 196½p. One analyst said the price of Capital, which owns Crockfords and the Colony Club, two of London's leading casinos, was now 9½ per cent above the implied value of the bid, implying that the market was expecting another bidder. He said that Ladbroke, which slipped 4½ to 232½p, might be in the frame - perhaps with its new partner Hilton Hotels, which owns Bally Entertainment, the world's biggest gaming group. London Clubs, which owns seven casinos, rose 3 to 381½p.

Shandwick International, one of the world's largest public relations companies, fell 3¼ to 56¾p following news that half the board of Shandwick Consultants, its financial consultancy, were leaving to set up their own business.

Analysts suggested the market's response was overdone. Mr Paul Richards, of Panmure Gordon, said that it was necessary to put Shandwick Consultants into perspective. He said it represented only 6 per cent of turnover and less than 10 per cent of operating profits.

WPP Group continued to strengthen, rising 7½ to 267p, ahead of today's results, which are expected to be at the top end of the £149m to £153m range of forecasts. The market also hopes there could be a share buy-back.

Metal Bulletin, where results will be announced shortly, hardened 25 to 1225p.

Reed International rallied on the back of a weakening pound, rising 16 to 1102½p. EMI Group, which has a Number One hit in the US with the Spice Girls' "Wannabe", bounced 13 to 1221½p.

Flying Flowers, the Jersey-based flower delivery service, rose 3 to 225½p, benefiting from a "buy" note from Beeson Gregory.

VTR, the video production group, fell 20 to 55½p after the company warned, just minutes before the close, that 1996/97 profits would be significantly below market expectations.

A drop in interim profits at Macro 4, the software group, allied to a warning that the company will not match previous full-year profits if exchange rates stay at current levels, sent the shares down 52½ at 422½p. Analysts were said to have cut full-year forecasts to £11m, compared with last year's £12.2m.

Regent Inns, which had results earlier this week, fell 22½ to 346½p. One analyst said the business faced problems in buying freehold properties for conversion.

Whitbread fell 13 to 791½p. UBS reiterated its "hold" recommendation.

Scotia Holdings fell 29½ to 650p, as talk of a £50m-£60m rights issue went round the market. Greig Middleton was said to be a seller of the stock. The broker was reported as saying the market had overvalued the stock on exaggerated expectations of future sales.

Centrica was once again the busiest stock in the FTSE 100, trading some 62m by the close. The shares gave up another 1¾ to 63½p.

FT 30 INDEX

	Feb 18	Feb 17	Feb 14	Feb 13	Feb 12	Yr ago	*High	*Low
FT 30	2843.3	2845.8	2858.2	2837.8	2827.8	2720.5	2885.2	2668.8
Ord. div. yield	4.05	4.04	3.97	4.06	4.07	3.90	4.22	3.76
P/E ratio net	17.16	17.20	17.52	17.53	17.47	16.40	17.55	15.80
P/E ratio nil	16.95	16.99	17.31	17.36	17.31	16.18	17.38	15.71

FT 30 since compilation: high 2885.2 19/04/96; low 49.4 26/06/40. Base Date: 1/7/35.

FT 30 hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2846.8	2854.5	2853.0	2852.6	2851.3	2851.1	2849.6	2848.7	2844.9	2857.2	2842.7

	Feb 18	Feb 17	Feb 14	Feb 13	Feb 12	Yr ago
SEAQ bargains	47,719	49,036	48,855	48,111	47,304	30,733
Equity turnover (£m)†	–	2162.2	647.1	779.7	747.6	1645.3
Equity bargains†	–	45,460	14,491	13,244	14,000	35,690
Shares traded (mil)†	–	832.4	257.2	236.2	303.2	597.8

†Excluding intra-market and overseas turnover.

	Feb 18	Feb 17	Feb 14	Feb 13	Feb 12	Yr ago	*High	*Low
FTSE AIM	1122.2	1129.6	1137.5	1128.7	1130.3	1023.1	1140.4	965.7

 *For 1996/97.

London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	832	Total Highs	267	Total contracts	60,376
Total Falls	406	Total Lows	31	Calls	36,604
Same	1,259			Puts	23,772

Feb 18 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

FTSE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	4338.0	4329.0	+4.0	4344.0	4324.0	10770	58796
Jun	4359.0	4349.0	+3.0	4360.0	4346.0	769	6309
Sep	-	4376.0	+4.0	-	-	0	1901

FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	-	4620.0	+10.0	-	-	0	6436

FTSE 100 INDEX OPTION (LIFFE) (*4335) £10 per full index point

	4150 C	4150 P	4200 C	4200 P	4250 C	4250 P	4300 C	4300 P	4350 C	4350 P	4400 C	4400 P	4450 C	4450 P	4500 C	4500 P
Feb	185½	1	145½	1	96½	2	49	6½	14	23	1½	68	1	116	1	166
Mar	197	15½	154½	24	116	35½	80½	51	52	73	38	101	18	137	8½	179
Apr	215½	39½	178	52	142½	66½	111½	84½	83½	106	68	132	46½	163	24½	197
May	241	56½	201	66½	165½	81½	133	98½	103½	118½	80½	144½	58½	173	46	208
Jun†			223½	79½			161½	115½			106½	160½			62½	218½

Calls 11,924 Puts 6,986

EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

	4175 C	4175 P	4225 C	4225 P	4275 C	4275 P	4325 C	4325 P	4375 C	4375 P	4425 C	4425 P	4475 C	4475 P	4525 C	4525 P
Feb	187	1	118	2	70	4	29	12½	5½	39	1	84	1	133½	1	183½
Mar	173	19½	133	29½	96	42½	65½	61½	40	86	22	117½	11	155½	4	199
Apr	194	40½	157	53	129	68½	93	88	68	112½	46½	140½	30	173½	18	211
Jun			208½	86½			144	120½			94	168½			54½	227
Sept†			263	117			201½	152			146½	194			109½	244½

Calls 11,213 Puts 11,868 * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1996/97 High	1996/97 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
§	F.P.	8.97	180	128½	†C&B Publishing	175		-	-	-	-
§	F.P.	3.25	3½	3	†Calidore Group	3¼		-	-	-	-
§	F.P.	2.00	1½	½	†Do Warrants	1¼		-	-	-	-
75½	F.P.	2,810	77½	55	Centrica	63½	-1¾	-	-	-	-
§100	F.P.	16.8	206	171	†GB Railways	192½	+4	-	-	-	-
§125	F.P.	27.7	150	144	Infobank Intl	144		-	-	-	-
§	F.P.	5.53	4	3¼	†John Lewis	4		-	-	-	21.4
§100	F.P.	24.7	123½	97½	Prelude Tst	118½		-	-	-	-
§*	F.P.	1.73	51	22½	Do Warrants	41½	-1	-	-	-	-
§100	F.P.	6.39	105	99	Tea Plantations	102	-1	-	-	-	-
§	F.P.	0.38	30½	24½	Do Warrants	30½		-	-	-	-
§	F.P.	-	128½	122½	Technoplast	126	-2	-	-	-	-
§	F.P.	5.64	24½	24½	†Zicor Mining	24½		-	-	-	-

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

RIGHTS OFFERS

Issue price p	Amount paid up	Latest Renun. date	1996/97 High	1996/97 Low	Stock	Closing price p	+or-
320	Nil	26/2	65pm	45½pm	Finelist Group	45½pm	-4

pm premium.

FT GOLD MINES INDEX

	Feb 17	% chg on day	Feb 14	Year ago	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index(33)	1782.55	-0.5	1770.55	2382.91	1.89	–	2405.53	1674.61
Regional Indices								
Africa (14)	2120.07	+1.9	2080.63	3280.79	4.28	31.28	3280.79	1918.45
Australasia (7)	2053.93	+1.8	2018.30	2745.89	2.45	22.34	2861.03	1941.72
North America (12)	1624.32	-1.8	1654.90	2073.28	0.77	80.43	2134.81	1550.58

 Figures in brackets show number of companies. Basis US Dollars. Base Value: 1000.00 31/12/92. † Partial. Latest prices were unavailable for this edition. Market closed 17/2/97: USA.

FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	Feb 18	Day's chge%	Feb 17	Feb 14	Feb 13	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	4332.3	−0.1	4337.8	4341.0	4327.1	3714.6	3.63	2.11	16.30	7.57	1815.66
FTSE 250	4612.7	+0.1	4606.5	4606.0	4585.7	4177.9	3.37	1.51	24.54	9.01	1894.44
FTSE 250 ex IT	4648.9	+0.1	4643.5	4643.1	4623.2	4192.2	3.46	1.53	23.54	8.85	1913.80
FTSE 350	2139.3	−0.1	2140.9	2142.0	2134.7	1855.5	3.58	1.99	17.52	3.83	1831.86
FTSE 350 Higher Yield	2054.7	−0.1	2056.9	2059.8	2054.7	1857.3	4.65	1.87	14.41	3.05	1483.96
FTSE 350 Lower Yield	2231.3	.....	2232.1	2231.4	2221.8	1858.6	2.52	2.23	22.29	4.66	1570.75
FTSE SmallCap	2343.45	+0.1	2340.96	2338.92	2335.05	2041.07	2.91	1.65	25.96	4.57	1961.87
FTSE SmallCap ex IT	2350.09	+0.1	2348.72	2347.25	2344.06	2019.71	3.08	1.73	23.47	4.97	1982.15
FTSE All-Share	2111.96	−0.1	2113.17	2114.12	2107.21	1832.12	3.53	1.97	17.98	3.81	1835.89

FTSE Actuaries Industry Sectors

	Feb 18	Day's chge%	Feb 17	Feb 14	Feb 13	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 MINERAL EXTRACTION(21)	4049.42	−0.2	4057.11	4033.05	4063.61	3220.56	3.68	2.15	15.81	15.36	1781.75
12 Extractive Industries(5)	3890.27	+0.2	3881.54	3851.09	3878.32	4149.46	4.16	2.68	11.23	0.00	1159.49
15 Oil, Integrated(3)	4183.85	−0.3	4196.14	4173.49	4209.10	3252.66	3.89	2.08	15.45	20.17	1893.51
16 Oil Exploration & Prod(13)	3533.33	+0.2	3527.65	3499.50	3501.45	2212.87	1.47	1.90	44.83	0.00	2142.17
20 GEN INDUSTRIALS(273)	1981.05	−0.2	1985.12	1991.51	1986.81	2016.98	3.89	1.87	17.20	1.97	1109.51
21 Building & Construction(35)	1351.73	−0.3	1355.57	1349.58	1350.34	1062.78	3.04	1.62	25.41	1.19	1155.27
22 Building Matls & Merchs(31)	1852.15	−0.6	1862.60	1864.24	1859.83	1887.79	4.21	1.39	21.41	0.44	957.43
23 Chemicals(26)	2314.19	−0.3	2320.53	2325.18	2306.13	2423.02	4.51	1.42	19.57	0.56	1123.65
24 Diversified Industrials(17)	1461.29	+0.7	1451.05	1465.68	1471.93	1737.52	4.42	2.59	10.94	4.02	847.52
25 Electronic & Elect Equip(39)	2272.45	−0.7	2289.27	2299.90	2295.97	2310.11	3.44	1.34	27.08	0.80	1207.30
26 Engineering(71)	2512.71	−0.2	2518.85	2524.88	2513.54	2268.88	3.28	2.34	16.40	3.67	1556.96
27 Engineering, Vehicles(13)	2764.97	−1.1	2794.34	2820.66	2800.80	2591.77	3.90	1.71	18.74	0.25	1460.51
28 Paper, Pckg & Printing(27)	2500.08	+0.1	2496.51	2479.20	2478.53	2670.70	4.17	1.79	16.77	0.00	1066.44
29 Textiles & Apparel(14)	1082.01	−0.5	1087.24	1085.93	1081.83	1479.31	6.49	1.28	15.06	0.44	684.89
30 CONSUMER GOODS(85)	4042.25	+0.2	4033.44	4049.25	3999.43	3608.41	3.65	1.86	18.22	8.23	1531.97
32 Alcoholic Beverages(7)	2686.80	+0.5	2672.62	2672.36	2650.06	2774.59	4.80	1.87	13.92	31.28	1006.42
33 Food Producers(25)	2855.26	+0.1	2852.57	2811.47	2762.55	2539.03	3.81	1.80	18.25	5.00	1323.85
34 Household Goods(17)	2798.74	......	2799.64	2800.97	2773.82	2548.00	3.59	2.23	15.58	1.08	1130.00
36 Health Care(18)	2260.79	+0.3	2254.65	2289.06	2260.21	1952.13	2.61	1.89	25.40	3.40	1398.98
37 Pharmaceuticals(18)	6277.68	......	6279.12	6358.63	6262.53	5155.98	2.84	1.79	24.54	0.00	2169.21
38 Tobacco(2)	4415.76	+1.2	4363.52	4362.93	4381.35	4743.69	5.87	2.13	10.00	0.00	1137.13
40 SERVICES(273)	2677.24	......	2678.75	2674.24	2667.40	2310.80	2.82	2.01	22.08	7.11	1423.59
41 Distributors(30)	2819.51	+0.1	2816.74	2811.25	2794.44	2577.35	3.01	2.00	20.78	0.46	1060.18
42 Leisure & Hotels(31)	3493.48	−0.1	3498.27	3459.64	3455.06	2850.26	2.50	2.06	24.37	18.16	1911.01
43 Media(44)	4362.84	......	4362.43	4358.10	4357.02	3799.97	2.18	2.12	27.04	7.82	1601.01
44 Retailers, Food(15)	1961.73	+0.1	1960.04	1959.72	1958.28	1902.79	4.03	2.31	13.42	4.28	1280.04
45 Retailers, General(53)	2097.12	+0.1	2094.98	2091.98	2073.33	1915.89	3.11	2.02	19.94	6.94	1229.16
47 Breweries, Pubs & Rest.(22)	3393.56	−0.2	3398.98	3417.87	3420.09	2976.46	3.20	2.10	18.61	16.84	1673.89
48 Support Services(56)	3024.49	+0.3	3015.44	3015.52	3011.43	2056.26	1.66	2.44	30.88	1.16	1953.28
49 Transport(22)	2778.52	−0.2	2783.29	2788.24	2789.48	2281.94	3.46	1.26	28.76	6.35	1190.36
60 UTILITIES(30)	2733.36	−0.2	2739.55	2748.08	2743.44	2440.96	4.89	1.57	16.32	5.11	1242.12
62 Electricity(9)	2876.51	−0.4	2888.19	2887.27	2897.94	2736.92	5.96	2.18	9.63	22.08	1588.81
64 Gas Distribution(2)	1611.63	−0.1	1613.31	1665.46	1611.63	1600.56	7.57	‡	‡	0.00	881.84
66 Telecommunications(8)	2313.60	−0.2	2318.16	2319.13	2320.29	1997.73	3.61	1.56	22.13	0.00	1092.22
68 Water(11)	2510.34	−0.1	2513.42	2508.59	2517.94	2096.64	5.93	2.31	9.11	0.00	1451.90
69 NON-FINANCIALS(682)	2152.63	......	2153.55	2156.48	2148.43	1930.19	3.61	1.89	18.36	4.77	1681.72
70 FINANCIALS(106)	3957.09	−0.2	3964.28	3960.19	3946.98	2956.10	3.43	2.40	15.18	1.08	1747.15
71 Banks, Retail(8)	5811.15	−0.2	5825.44	5807.58	5783.77	4212.49	3.25	2.74	14.04	0.00	1945.18
73 Insurance(18)	1769.89	−0.1	1771.46	1778.32	1764.19	1412.63	4.71	2.34	11.36	1.86	1373.01
74 Life Assurance(7)	4603.26	−0.4	4622.89	4642.55	4650.20	3534.86	3.39	1.78	20.78	0.00	1957.14
77 Other Financial(29)	3185.47	+0.4	3172.04	3170.65	3170.69	2547.21	3.18	2.04	19.24	1.32	1862.99
79 Property(44)	1866.50	−0.1	1868.32	1868.69	1866.19	1445.65	3.42	1.33	27.53	2.57	1181.35
80 INVESTMENT TRUSTS(127)	3355.03	+0.4	3342.91	3340.65	3331.42	3122.08	2.14	1.12	52.23	5.79	1190.51
89 FTSE All-Share(915)	2111.96	−0.1	2113.17	2114.12	2107.21	1832.12	3.53	1.97	17.98	3.81	1835.89
FTSE Fledgling	1327.94	+0.1	1326.63	1325.67	1323.16	1147.69	2.91	0.54	79.35	2.67	1415.81
FTSE Fledgling ex IT	1348.40	......	1347.77	1347.28	1344.88	1147.18	3.18	0.47	80.00†	2.70	1439.87

Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FTSE 100	4331.2	4346.0	4349.8	4347.2	4341.6	4342.7	4340.0	4339.4	4334.8	4350.9	4331.2
FTSE 250	4606.8	4608.5	4611.4	4614.6	4614.7	4614.7	4615.2	4615.4	4612.8	4615.8	4605.4
FTSE 350	2138.3	2144.2	2146.0	2145.3	2143.1	2143.5	2142.5	2142.3	2140.3	2146.0	2138.3

Time of FTSE 100 Day's high: 8.50 AM Day's low: 8.30 AM. FTSE 100 1996/97 High: 4341 (14/02/97) Low: 3632.3 (16/07/96).

FTSE 350 Industry baskets

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	Close	Previous	Change
Bldg & Cnstrcn	1305.8	1306.1	1305.3	1305.6	1304.4	1304.4	1304.6	1304.2	1300.5	1300.5	1305.5	−5.0
Pharmaceuticls	6196.0	6206.4	6227.4	6226.0	6198.8	6174.5	6160.1	6175.6	6194.8	6191.5	6193.4	−1.9
Water	2505.5	2506.6	2504.6	2503.6	2503.6	2503.6	2502.3	2503.2	2503.2	2503.2	2506.3	−3.1
Banks, Retail	5847.8	5861.8	5920.6	5918.4	5903.3	5905.4	5902.2	5900.2	5886.8	5885.3	5899.8	−14.5

For further information on the FTSE Actuaries Share Indices please contact FTSE International on 0171 448 1810. The FTSE Actuaries Share Indices are calculated in accordance with a standard set of ground rules established by FTSE International in conjunction with the Faculty of Actuaries and the Institute of Actuaries. "FT-SE" and "Footsie" are trade marks of the London Stock Exchange and The Financial Times and are used by FTSE International under licence. † Sector P/E ratios greater than 80 and net covers greater than 30 are not shown. ‡ Values are negative. Deletions Fenchurch (FTSE Fledgling).

FTSE INTERNATIONAL

TRADING VOLUME

Major Stocks Yesterday

	Vol. 000s	Closing price	Day's change
3i†	839	527	-½
ASDA Group†	9,800	116	+1¼
Abbey National†	3,700	793½	+8½
Airtours	954	975½	+9
Albert Fisher	720	43¾	+½
Allied Domecq†	2,100	430	-1
Anglian Water	633	630	-1
Argos†	842	695	+21¼
Arjo Wiggins	1,200	153½	-1½
Assoc. Brit. Foods†	462	503½	+2
Assoc. Brit. Ports	1,100	310½	+4
BAA†	1,300	528	+½
BAT Inds.†	8,600	528	+7½
BBA	456	329½	
BICC	250	264½	+1½
BOC†	510	937½	-6
BG†	17,900	176	+1½
BP†	9,400	686½	-4
BPB	1,800	345½	-1
BSkyB†	2,800	633½	-16½
BT†	12,000	438	-3
BTR†	8,000	243	+4
Bank of Scotland†	7,000	357½	+6½
Barclays†	27,800	1129	-70½
Bass†	1,400	857	+6
Blue Circle†	3,900	385½	-12
Booker	4,400	363½	-1½
Boots†	3,700	688	-13
Britannic	3,900	870	+66½
Brit. Aerospace†	2,100	1236	-15
British Airways†	1,800	616	+5½
British Biotech	1,500	246	+2½
British Energy	3,100	145½	+1½
British Land	1,800	524	+2
British Steel†	18,300	142½	+1¾
Burmah Castrol†	558	1024½	
Burton†	9,800	153¾	+1
Cable & Wire†	3,100	505½	-½
Cadbury Schweppes†	2,800	489	+3½
Caradon	887	267½	
Carlton Comms.†	2,000	557½	-6½
Centrica†	62,900	63½	-1¾
Chubb	2,300	422½	+1
Coats Viyella	1,800	132	-2
Comm. Union†	1,500	716	-9½
Compass	4,400	714½	-4
Cookson	1,100	239	-1
Courtaulds	787	375½	-4½
Delgety	320	344½	-3
De La Rue	[illegible]	[illegible]	[illegible]
Dixons†	[illegible]	[illegible]	[illegible]
EMAP	[illegible]	[illegible]	[illegible]
EMI†	[illegible]	[illegible]	[illegible]
Electrocomponents	[illegible]	[illegible]	[illegible]
Eng China Clays	[illegible]	[illegible]	[illegible]
Enterprise Oil	[illegible]	[illegible]	[illegible]
FKI	[illegible]	[illegible]	[illegible]
Foreign & Col. I.T.	[illegible]	[illegible]	[illegible]
Gen. Accident†	[illegible]	[illegible]	[illegible]
General Elect.†	[illegible]	[illegible]	[illegible]
Glaxo Wellcome†	6,800	1025	-10½
Glynwed	955	297	+1½
Granada†	3,600	926½	-1
Grand Met.†	5,400	459½	+4½
GUS†	3,700	662½	+12½
Greenalls	1,200	556½	-1
GRE†	3,200	295	-1½
GKN†	1,100	922	-11½
Guinness†	3,000	440	+2½
HSBC (75p shs)†	3,100	1557½	+26
Hammerson	658	494	-1
Hanson†	9,200	80¼	-¼
Harrisons Crosfield	730	129	-1
Hays†	674	577½	+4½
Hillsdown	2,400	188½	+1½
Hyder	749	828½	-2
IMI	535	382½	-½
ICI†	1,200	758½	-1
Imperial Tobacco†	2,400	419½	-2½
Inchcape	3,300	284½	+2
Johnson Matthey	445	529½	-½
Kingfisher†	2,700	660½	-8½
Kwik Save	253	311½	+½
Ladbroke†	3,500	232½	-4½
Land Securities†	773	778½	-7
Laporte	637	647½	-6
Legal & General†	4,100	389	-8½
Lloyds TSB†	14,700	528	+8½
LASMO†	1,600	236	-1
Lonrho	2,400	134½	+4½
LucasVarity†	7,500	197½	-2
MEPC	353	471½	+2½
MFI	1,500	184	-1½
Marks & Spencer†	6,700	489	+2½
Mercury Asset Man†	83	1345½	+18
Morrison (Wm.)	199	147	-½
NFC	1,700	162½	-4
NatWest Bank†	6,500	803½	-31
National Grid†	6,700	209½	+½
National Power†	3,900	501½	-5½
Next†	3,100	601½	+1½
Northern Foods	1,600	222	+½
Orange†	3,800	215½	+½
Pearson†	1,200	751	-3
P & O†	780	653½	-6
Pilkington	1,500	131½	-½
PowerGen†	1,200	545½	+½
Premier Farnell	285	530½	
Provident Financial	860	557½	+11
Prudential†	7,200	564½	-8½
REXAM	1,100	326½	
RMC†	108	938½	-3½
RTZ†	2,800	913	+8
Racal	1,600	289½	+½
Railtrack†	2,300	398	+4½
Rank Group†	2,100	420	-2
Reckitt & Colman†	2,100	765	-1½
Redland†	1,900	346½	-3½
Reed Intl.†	1,400	1102½	+16
Rentokil Initial†	2,700	487	-1
Reuters†	4,900	655½	+9
Rolls Royce†	9,400	221½	+1½
Royal & Sun Allce†	6,000	504½	+3½
Royal Bk Scotland†	1,700	616	-4½
Safeway†	3,500	359½	-1
Sainsbury†	2,400	315½	-½
Schroders†	36	1747½	
Scottish & New.†	954	676	
Scot. Hydro-Elecz.	300	355	-1
Scottish Power†	4,400	351½	-2½
Sears	2,800	80½	-1½
Securicor	3,800	312½	+3
Sedgwick	1,400	128	+1
Severn Trent†	1,500	697½	-5
Shell Transport†	4,100	1088½	
Siebe†	1,800	964½	-2
Slough Ests	1,400	274½	-½
Smith (W.H.)	575	453½	+13
Smith & Nephew†	938	190¼	+1¾
SmKl Beecham†	6,400	894½	+15
Smiths Inds.†	500	778½	-2½
Southern Elect	218	748½	-4½
South West Water	459	677½	-1
Stagecoach	625	692½	-27½
Standard Chartd.†	3,200	802	-3
Storehouse	1,400	288½	-5
T&N	4,400	149½	-4
TI Group†	738	524	-2½
Tarmac	2,500	98	+2
Tate & Lyle†	497	443½	-3
Taylor Woodrow	1,000	187	-1½
TeleWest Comms	172	119	
Tesco†	4,000	343	
Thames Water†	257	669½	+1
Thorn	1,700	202½	-1
Tomkins†	4,900	286½	-2
Unigate	488	457½	-1
Unilever†	8,100	1602½	-2
United Biscuits	1,600	233	+1
Utd. News & Media†	2,400	653½	-6
United Utilities†	1,200	679½	+1
Vodafone†	5,600	289	+6
WPP	4,100	267	+7½
Wessex Water	6,100	386	-1
Whitbread†	2,000	791½	-13
Williams Hldgs.	8,500	303	+6
Willis Corroon	1,600	138½	+2
Wimpey	165	135½	+½
Wolseley†	202	487½	
Yorkshire Elect	471	818½	-7
Yorkshire Water	78	740½	-1½
Zeneca†	1,600	1775	-1½

Based on trading volume for a selection of major securities dealt through the SEAQ system yesterday until 4.30pm. † Indicates an FTSE 100 index constituent. All trades are rounded. Source: Extel, part of FT Information.

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Feb 18 / Sch)

BELGIUM/LUXEMBOURG (Feb 18 / Frs.)

CZECH REP (Feb 18 / Koruna)

DENMARK (Feb 18 / Kr)

FINLAND (Feb 18 / Mks)

FRANCE (Feb 18 / Frs.)

GERMANY (Feb 18 / Dm.)

GREECE (Feb 18 / Drachma)

ITALY (Feb 18 / Lire)

NETHERLANDS (Feb 18 / Fls.)

NORWAY (Feb 18 / Kroner)

POLAND (Feb 18 / Zloty)

PORTUGAL (Feb 18 / Escudo)

SPAIN (Feb 18 / Pta.)

SWEDEN (Feb 18 / Kronor)

SWITZERLAND (Feb 18 / Frs.)

TURKEY (Feb 18 / Tk Lira)

PACIFIC

JAPAN (Feb 18 / Yen)

HONG KONG (Feb 18 / H.K.$)

INDONESIA (Feb 18 / Rupiah)

MALAYSIA (Feb 18 / MYR)

NEW ZEALAND (Feb 18 / NZ $)

SINGAPORE (Feb 18 / S$)

AUSTRALIA (Feb 18 / Aust$)

SOUTH KOREA (Feb 18 / Won)

TAIWAN (Feb 18 / TW $)

THAILAND (Feb 18 / Baht)

AFRICA

SOUTH AFRICA (Feb 18 / Rand)

NORTH AMERICA

CANADA

TORONTO (A) (Feb 18 / Can $) 4 pm close

MONTREAL (A) (Feb 18 / Can $) 4 pm close

INDICES

	Feb 18	Feb 17	Feb 14	1996/97 High		Low	
India BSE Sens.(1979)	3530.23	3580.29	3521.99	4069.26	18/6/96	2745.06	4/12/96
Indonesia Jakarta Comp.(10/8/82)	695.21	701.76	704.47	707.36	13/2/97	512.48	2/1/96
Ireland ISEQ Overall(4/1/88)	3006.28	3001.84	3016.18	3016.18	14/2/97	2234.81	2/1/96
Italy Banca Comm Ital(1972)	772.80	773.67	785.63	797.71	10/2/97	572.21	27/3/96
MIB General(2/1/97)	1160.0	1162.0	1180.0	1197.80	10/2/97	981.00	2/1/97
Japan Nikkei 225(16/5/49)	18470.75	18750.65	18722.00	22666.80	26/6/96	17303.70	10/1/97
Nikkei 300(1/10/82)	265.14	267.91	267.30	318.70	26/6/96	251.04	27/1/97
Thailand Bangkok SET(30/4/75)	700.15	708.20	713.48	1415.04	5/2/96	698.08	13/2/97
Turkey IMKB Nat 100(1986)	1596.00	1554.00	1555.00	1700.00	27/1/97	388.00	2/1/96
WORLD MS Capital Intl(1/1/70)	841.5*	843.5	844.6	844.70	13/2/97	725.90	15/1/96
CROSS-BORDER Eurotrack 100(26/10/90)	2172.87	2165.29	2158.67	2172.87	18/2/97	1504.40	11/1/96
Euro Top-100(26/6/90)	1824.40	1828.43	1824.62	1828.43	17/2/97	1383.01	11/1/96
HSBC JC Drgn(31/12/88)	(u)	419.54	418.10	429.46	20/1/97	344.19	2/1/96
ING Bergs Emrg(7/1/92)	178.15	178.02	177.86	178.15	18/2/97	147.36	2/1/96

INDEX FUTURES

	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
CAC-40 (200 x Index)							
Feb	2653.0	2619.0	-23.0	2686.0	2618.0	14,878	27,339
Mar	2659.5	2625.5	-23.0	2671.0	2628.0	934	23,485
DAX							
Mar	3272.0	3237.5	-35.0	3296.5	3235.0	34,234	-
Jun	3289.0	3252.5	-36.0	3310.0	3251.0	9,060	-
OMX							
Feb	2099.00	2090.00	-	2108.00	2089.00	4,180	18,119
Mar	2103.00	2095.25	+0.50	2111.00	2094.50	1,442	10,621
SOFFEX							
Feb	4535.0	4488.0	-40.5	4553.0	4485.0	9,449	19,041
Mar	4554.0	4494.0	-38.0	4554.0	4494.0	4,133	11,163

** Sat Feb 15: Taiwan Weighted Price 7368.93; Korea Comp Ex 722.32. Base values of all indices are 100 except: Australia All Ord and ... Mining – 500; Austria Traded, BEL20, HEX Gen., MIB Gen., BVL30, SBF250, CAC40, Euro Top-100, ISEQ Overall, Toronto Comp./Metals & Minerals and DAX – all 1,000; JSE Gold – 255.7; JSE 20 Industrials – 264.3; IMKB Nat 100 - 1; NYSE All Common – 50; Standard & Poor's – 10 and Amex Comp - 550. §§ Montreal. ♦ Toronto. (c) Closed. (u) Unavailable. ‡ IBIS/DAX after-hours index: Feb 18 - 3230.83 -29.47

US INDICES

Dow Jones	Feb 14	Feb 13	Feb 12	1996/97 High	1996/97 Low	Since compilation High	Since compilation Low
Industrials	6988.96	7022.44	6961.63	7022.44 (13/2/97)	5032.94 (10/1/96)	7022.44 (13/2/97)	41.22 (8/7/32)
Home Bonds	103.50	103.38	103.29	106.09 (14/2/96)	100.99 (15/7/96)	109.77 (18/10/93)	54.99 (1/10/81)
Transport	2359.55	2363.24	2346.91	2363.24 (13/2/97)	1882.71 (18/1/96)	2363.24 (13/2/97)	13.23 (8/7/32)
Utilities	232.04	233.16	233.09	240.86 (22/1/97)	204.86 (30/7/96)	256.46 (31/8/93)	16.53 (8/7/32)

DJ Ind. Day's high 7074.77 (7074.38) Low 6935.85 (6924.30) (Theoretical♦)
Day's high 7024.75 (7040.91) Low 6983.95 (6980.48) (Actual♦)

Standard and Poors	Feb 14	Feb 13	Feb 12	1996/97 High	1996/97 Low	Since compilation High	Since compilation Low
Composite‡	808.48	811.82	802.77	811.82 (13/2/97)	598.48 (10/1/96)	811.82 (13/2/97)	4.40 (1/6/32)
Industrials¶	942.22	947.33	938.92	947.33 (13/2/97)	702.07 (15/1/96)	947.33 (13/2/97)	3.52 (30/6/32)
Financial	94.99	94.86	92.51	94.99 (14/2/97)	58.87 (10/1/96)	94.99 (14/2/97)	7.13 (4/9/74)
NYSE Comp.	423.48	424.42	419.88	424.42 (13/2/97)	321.41 (10/1/95)	424.42 (13/2/97)	4.64 (25/4/42)
Amex Comp.	594.15	595.40	593.10	617.81 (22/5/96)	524.20 (16/7/96)	617.81 (22/5/96)	524.20 (16/7/96)
NASDAQ Cmp	1367.19	1370.81	1358.95	1388.06 (22/1/97)	988.57 (15/1/96)	1388.06 (22/1/97)	54.87 (3/10/74)

■ RATIOS

	Feb 14	Feb 7	Jan 31	Year ago
Dow Jones Ind. Div. Yield	1.92	1.95	1.96	2.16
	Feb 12	Feb 5	Jan 29	Year ago
S & P Ind. Div. yield	1.73	1.78	1.78	1.87
S & P Ind. P/E ratio	24.83	24.09	23.88	20.07

■ NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Close price	Change on day
Micron	5,957,200	33⅞	+1
PepsiCo	5,224,500	32⅛	+¼
Banc One	4,780,200	46	+½
Stone Cont	4,674,700	12¾	–⅛
Merck	4,006,000	97⅝	–2⅛
Utd Hlth	3,930,200	54⅞	+3¾
Mercury Fin	3,845,700	2¼	–⅛
H Packard	3,671,800	50⅝	–¼
IBM	3,423,800	145⅞	–1
First USA	3,059,200	50¾	+⅜

■ TRADING ACTIVITY

● Volume (million)

	Feb 14	Feb 13	Feb 12
New York SE	480.139	584.368	563.552
Amex	17.839	19.531	23.914
NASDAQ	600.956	744.768	687.544
NYSE			
Issues Traded	3,341	3,332	3,339
Rises	1,339	1,723	1,764
Falls	1,194	826	760
Unchanged	808	783	815
New Highs	296	343	242
New Lows	14	14	25

	Open	Latest	Change	High	Low	Est. vol.	Open int.
■ S&P 500							
Mar	812.40	813.30	+1.10	814.45	811.30	52,806	181,570
Jun	821.20	821.00	+1.25	821.40	821.00	836	11,889
	Open	**Sett price**	**Change**	**High**	**Low**	**Est. vol.**	**Open int.**
■ Nikkei 225							
Mar	18640.0	18500.0	-220.0	18790.0	18460.0	22,798	219,786
Jun	18610.0	18430.0	-230.0	18750.0	18430.0	6,493	57,783

Open interest figures for previous day.

† Correction. * Calculated at 15.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♦ The DJ Indl. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ¶ Subject to official recalculation.

■ TOKYO - MOST ACTIVE STOCKS: Tuesday, February 18, 1997

	Stocks Traded	Closing Prices	Change on day
Sumitomo Mtl Ind	7.2m	283	+6
Nippon Steel Cp	6.9m	325	-10
Showa Denko	6.4m	258	+17
Minolta	6.2m	752	-23
Hitachi	5.8m	1150	-10
NKK Corp	5.1m	261	-1
Toshiba Corp	5.1m	727	-23
Honda Motor	4.5m	3710	+20
Banyu Pharm	4.1m	1800	
Sanyo Electric	3.9m	511	+2

FTSE

4 pm close February 18

NEW YORK STOCK EXCHANGE PRICES

1996/97 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
32	24⅞	AAR x	0.48	1.8	22	676	26⅝	26⅛	26½	-⅛
46⅛	33	AMP x	1.04	2.6	30	2623	40⅛	39¼	39½	-¼
97½	68	AMR			6	6227	84⅛	81⅛	82	+⅛
50½	33¼	ASA	1.20	3.3	23	667	36½	36	36⅛	
58⅞	38⅛	AbbtL	0.96	1.6	24	15098	u60⅛	59¼	59⅝	+1⅜
17⅞	12¼	Abitibi Pr	0.40	2.3	9	8891	u17½	17⅛	17⅜	+⅞
20¼	13½	ABM Ind	0.40	2.1	18	144	19⅛	18¾	19	+¼
22½	13¾	Acptncetn			10	375	20⅞	20½	20⅞	+⅜
61¼	37¾	ACE Ltd	0.72	1.2	10	1528	u61½	60	61	+1¼
10½	9⅛	ACM Gvt In x	0.90	8.7	11	142	10⅜	10¼	10⅜	+⅛
7⅞	6⅝	ACM GrOpp x	0.68	8.4		33	7½	7½	7½	
9⅞	8⅜	ACM Man x	0.90	9.4		363	9¾	9⅝	9⅝	-⅛
13⅞	6⅛	Acme Elect				58	7⅛	6⅞	6⅞	-¼
21⅝	13⅞	Acme Mills			71	111	16¾	16½	16½	-¼
33¾	27¼	Acordia	0.80	2.6	15	581	30⅞	30⅝	30⅞	+⅜
29⅜	12	Acuson				3642	u29¾	29¼	29½	+¼
21¼	17⅞	Adams Expr	0.55	2.6	1	741	21	20¾	20⅞	
36⅛	10¼	AdvMic				5429	34⅜	33½	34½	+⅝
14⅛	8½	Advest Grp			10	176	u14⅜	13⅞	14⅜	+½
28⅛	9⅛	Advo Inc			30	188	13¼	13⅛	13¼	
65⅛	41⅛	Aegon	1.16	1.8	19	169	u65⅞	65⅛	65⅞	+1⅜
6¾	3½	Aerflx				130	4⅜	4¼	4⅜	-⅛
50⅛	40⅜	AES Corp				20	0	00	61⅝	-½
89	57⅝	Aetna	0.80	0.9	62	6730	86⅞	84⅝	84¾	-1¾
44	28¼	AfacsQ x	0.40	1.0	15	3433	42⅛	41¼	41⅝	+⅛
22	17⅛	AGL Res x	1.08	6.4	14	444	20¼	20	20⅛	+⅛

- B -

- C -

- D -

- E -

- F -

- G -

- H -

- I -

- J -

- K -

- L -

- M -

- N -

- O -

- P - Q -

- R -

- S -

Continued on next page

4 pm close February 18

NYSE PRICES

Continued from previous page

Price data supplied by Extel, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1996. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

d-new yearly low. P/E price-earnings ratio. ss-sales. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.
¶ Dealings suspended.

♣ FT Free Annual Reports Service

You can obtain the current annual reports and if available quarterly reports of any companies on the US exchanges with a ♣ symbol. To order reports ring (International Access) 1-804-320-8097 or give the names of the companies whose reports you want and fax your request to (International Access) 1-804-320-8135. Reports will be sent the next working day, subject to availability. You can also order online at http://www.icbinc.com/cgi-bin/ftl.

4 pm close February 18

AMEX PRICES

4 pm close February 18

NASDAQ NATIONAL MARKET

EASDAQ

EASDAQ is a fully regulated independent pan European Stock Market focused on high growth companies with international aspirations. The shares of companies on the EASDAQ Stock Market can be bought and sold through EASDAQ Members. EASDAQ Members are made up of Brokers and Banks from across Europe.

Company	Mid price	Change on day	Volume	High	Low	Company	Mid price	Change on day	Volume	High	Low
Activcard	US$8.125		0	8.5	8	Innogenetics	US$11.25		16480	12.875	10.125
Artwork Systems	US$10.75	-0.125	17950	11.375	9.375	Mercer Internt.	US$10.375		10000	11.375	10.375
Dr Solomon's ADS	US$24.75	+0.75	2300	26.125	16.625	Protech	US$5.625	+0.125	0	5.75	4.75

Prices for 18/2/97.

Information about EASDAQ can be found on the Web site at: HTTP://WWW.EASDAQ.be
EASDAQ offices are located in Brussels (Tel 32-2 / 227 65 20) and in London (Tel. 44-171 / 515 3095).

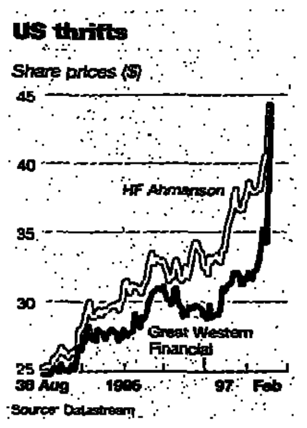
Dow fails to breach 7,000 level

AMERICAS

The Dow Jones Industrial *Average again struggled to* make a definitive break above the psychologically important 7,000 level which it first breached last week, as traders returned to their desks after the Presidents' Day holiday on Monday, *writes Tracy Corrigan in New York.*

At the end of morning trading, the Dow Jones Average stood at 6,994.73, up just 5.77.

The Standard & Poor's 500, which crossed the 800 point benchmark last Wednesday,



managed to hold its ground just above that level at 808.94, virually unchanged.

However, in the first four *days of last week, the Dow* had climbed 167 points and the S & P had risen more than 22 points.

The technology-rich Nasdaq *composite slipped* 4.45 at 1,362.74 while the Pacific Stock Exchange technology index, which contains NYSE and Nasdaq issues, lost 0.5 per cent.

In the absence of any fresh trading impetus, the market focused instead on a spate of bids, which encouraged patches of trading activity in an otherwise dull market.

The market's tendency to adopt a favourable view of bids for the acquirer's and the target's stock was again in evidence, particularly *since most of yesterday's* deals were of the cost-cutting, consolidating variety.

In the biggest deal of the day, HF Ahmanson's share price rose $4 to $44¼ *after it* announced a $6bn merger with Great Western Financial, another West Coast thrift. Its target fared even better, with a $10⅞ leap to $40⅞. Ahmanson projected that it will close a quarter of its retail financial network as a result of the deal.

Shares in AES Corp, a US power company, rose $2⅞ to $64⅞ on news of a $1.27bn deal for Destec, which also saw its share price rise $1⅛ to $20⅞.

In the hotels sector, Marriott International's share price rose $⅞ to $56⅛ after it agreed to buy Renaissance Hotel Group for around $1bn.

In the rapidly consolidating managed healthcare sector, however, HealthSouth saw its share price slip $1⅞ when it announced a bid for Horizon/CMS, in a stock swap valued at $1.6bn. Horizon's share price rose $2⅛ to $16⅞ on the news.

TORONTO traded quietly for most of the morning session. There was little inspiration from Wall Street which made a slow start *after the long weekend in* the US, and dealers said Canadian volumes were well below average. At noon, the 300 composite index was *barely changed*, showing a decline of 2.09 to 6,215.51.

Bre-X Minerals continued to lose ground. Off 95 cents on Monday on news of the deal with Freeport-McMoRan Copper, the shares fell a further C$2.25 to C$20.75. Abitibi-Price, the paper group which is to merge with Stone Consolidated, rose 60 cents to C$23.70 after Goldman Sachs upgraded it to "outperform".

Mexico City hopes fade

MEXICO CITY moved higher at the opening bell but, by mid-morning, sentiment that had been buoyed on hopes of interest rate reductions and positive economic news, began to fade.

At midsession the IPC index, which had put on more than 8 points at the opening, was off 1.92 at 3,848.52. Dealers said that *talk of a fall for money mar*ket rates persisted, but that investors were taking a more cautious stance.

SANTIAGO stayed firm with continued buying from foreign funds lifting the IPSA index by 0.61 or 0.5 per cent to 115.81 at midsession. Electricity utilities were among the best of the morning performers. Endesa was in demand, and Enersis rose more *than 1 per cent to 270* pesos.

BUENOS AIRES looked like ending a run of seven straight upside days. At mid*session, the Merval index* was off 5.69 at 728.5.

SAN PAULO also eased with the Bovespa index down 329 at 87,832 at midsession.

Industrials, golds lift Jo'burg

Shares in Johannesburg continued to move higher with both industrials and gold in demand. The all-share index finished 51.7 better at 7,094.2.

Industrials put on 52.2 to 8,368.1 and golds gained 29.9 to 1,448.6. Dealers said that the market came off the top in late trading following a wobble for the rand, but that sentiment stayed firm.

De Beers added R1.50 to R150 and South African Breweries rose R2 to R141.5. Golds gained from a stronger bullion price plus takeover news.

Grootvlei rose R1.30 to R10.80 and Modderfontein 22 cents to R212 on the bid from Harmony. Elsewhere among golds. Vaal Reefs rose R13 to R331 and Kloof jumped R1.40 to R36.75. Western Areas ended at R56.75, up R1.75

Swedish banks aflame with merger talk

EUROPE

Weaker US influences – a weaker dollar, Treasury bonds and a flat to lower Dow – left a number of bourses well off the top. However, there was some spice in banks: not in France or Italy, which had had their share; but in Sweden, aflame with restructuring talk; in *Norway, Denmark, the* Netherlands and Germany.

STOCKHOLM seemed to be in two minds. Engineering, pharmaceuticals and forestries were weak, *the lat*ter showing a fall of 1.85 per cent after recent gains; but banks soared by 5.3 per cent, the construction sector put on 3.5 per cent, and the Affärsvärlden general index came out ahead on balance, up x.x at an all time high of 2.68x.x.

Swedbank and Foreningsbanken, suspended on Monday, announced merger terms and rose by SKr20 to SKr139.50, and SKr4.70 at *SKr43.20* respectively. Nordbanken, following failed talks with S-E-Banken, said that the doors were still open on a possible merger with a future partner, and rose SKr20 to SKr255; and Handelsbanken, on a 33 per cent jump in profits, put on SKr6.50 at SKr207.50.

Merger talks were the story in construction, too, where NCC and Siab decided

FTSE Actuaries Share Indices

Feb 18							THE EUROPEAN SERIES	
Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FTSE Eurotrack 100	2179.07	2180.18	2179.72	2178.43	2178.88	2178.20	2175.50	2172.87
FTSE Eurotrack 200	2204.69	2204.98	2205.54	2202.20	2202.75	2202.65	2201.59	2198.41

	Feb 17	Feb 14	Feb 13	Feb 12	Feb 11
FTSE Eurotrack 100	2165.29	2158.67	2158.38	2143.59	2133.28
FTSE Eurotrack 200	2190.85	2191.24	2183.79	2174.50	2164.68

Base value 1000 (26/10/90); High/day: 100 - 2181.45; 200 - 2207.18 Low/day: 100 - 2172.87 200 - 2197.61. 1 Partial

to get together, and closed SKr3.50 higher at SKr89.50, and SKr11 better at SKr51 respectively.

Weak links included Ericsson Bs, down *SKr4 at SKr246* on mobile phone price worries, and the bus and truck maker, Scania, which lost SKr5 at SKr191 after a 44 per cent drop in profits.

FRANKFURT's Dax index came back from an all-time, intra-day high of 3,287.79 to close 29.47 lower at 3,230.83 as the dollar moved from a high of over DM1.70 to a low of under DM1.69. Cyclicals, flying high earlier this month, saw profit-taking. BMW dropped *DM40.95* or 3.4 per cent to DM1,153.

Financials were mixed. Allianz, like BMW, seemed to regret some of its recent *strength* and fell DM124.50 or 3.7 per cent to DM3,225. Banks showed relative strength as a sector and Deutsche was the most active stock, trading in DM1.5bn within a DM12.1bn German stock market total *as the shares rose 70 pfg to* DM87.80 on a better than expected rise in profits.

However, Bayernverein, where profits had been less *important than industry* restructuring speculation, fell 95 pfg or 1.5 per cent to DM63.45 in spite of saying it had ambitious profit targets for 1997.

Restructuring produced the biggest Ibis gain of the day in Deutsche Babcock, the plant engineering group, soaring DM5.90 or 8.25 per cent to DM77.40 after it said a reorganisation might cut as many as 10,000 jobs, a third of the present workforce, by *1997-98*.

PARIS fell back in late trading to follow the dollar lower. Up 5 points with an hour to go, the CAC-40 finished off 16.96 at 2,617.52.

The brighter spots among the leaders were Michelin, hit hard lately by depressing demand news from the motor sector, and Rhône-Poulenc, upgraded on Monday by Goldman Sachs. Poulenc rose Fr3.90 to FFr199, and the tyre group rallied FFr14.10 or 4.2 per cent to FFr351.30.

Usinor Sacilor was heavily traded on its 1996 results, which weighed in with a big dip in earnings but a less damaging than expected reduction for the dividend.

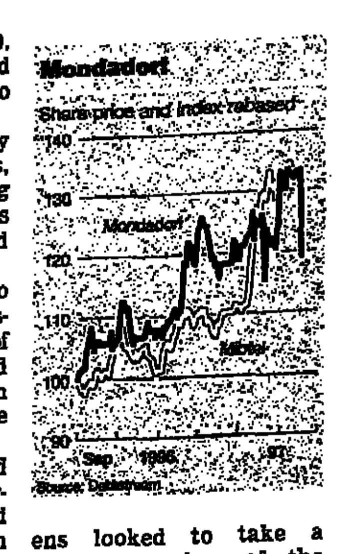
The steel group was also relatively upbeat about prospects *for the second half of* 1997. The shares jumped FFr2.70 to FFr87.20 in 3.7m traded, the heaviest single day's volume since July.

AMSTERDAM stayed firmly on the upside, underpinned by strong bonds and a positive technical position ahead of Friday's options expiries. The AEX climbed 3.43 to 735.42, another all-time high.

Unilever ran into profit-taking, but there was good US support for Philips and the financials continued to bounce off the strength of Dutch debt markets. Philips gained Fl 1.80 to Fl 81.20. *ABN-Amro* added *Fl 1.60* to Fl 135.20 and Aegon put on Fl 3.00 to Fl 124.80.

Wolters Kluwer, the publisher, notched up the sharpest blue-chip advance of the session, rising Fl 8.80 to Fl 236.50 in active trade on strong rumours of imminent corporate activity.

Unilever, up almost 17 per cent in six sessions, eased Fl 7.50 to Fl 359.70. Hoogovens looked to take a short-term view of the *results from Usinor Sacilor*, falling Fl 1.10 to Fl 78.10 on the steeply lower 1996 profits from its French rival.



Oće van der Grinten rose *Fl 2.00 to Fl 242.30 after a* round of broker earnings upgrades following Monday's strong results statement.

ZURICH reversed early *gains. The SMI index* shed 23.9 at 4,490 after an intraday high of 4,548.1. Profit-taking hit UBS, the bank losing SFr24 at SFr1,295 ahead of Friday's results; similarly, SMH lost SFr31 or 3.2 per cent at SFr951 after the watchmaker's 3.7 per cent gain on Monday.

MADRID, too, came back from early strength, the general index easing 0.66 to 481.29 at the end. However, Telefónica lost no more ground after Monday's Pta40 fall, closing a token Pta5 higher at Pta3,365.

MILAN moved lower with the Mibtel real-time index closing off 123 at 12,238. Fiat was a weak feature, dipping L160 to L5,030 in spite of reports that the motor giant was about to end an eight-year hiring freeze.

Among second liners, Mondadori caused an early upset with the announcement that Mr Paulo Forlin, its recently hired chief executive, was to resign. The shares ended off L1,376 at L12,400.

COPENHAGEN majored on banks, Den Danske rising DKr15 to DKr580, and Unidanmark DKr8 to DKr355 as the KFX index rose 1.54 to 157.54, its ninth all-time high *in 12 trading days.*

OSLO's banks gained 3.4 per cent on Stockholm-encouraged speculation about consolidation in Norway's financial sector. The total index peaked again, 12.04 higher at 1,114.22.

LISBON featured a gain of Esc105 or 17.6 per cent to Esc700 in the shipping company, Lisnave, on restructuring speculation. The BVL 30 index closed 1.20 up at a record high of 2,617.93.

Written and edited by William Cochrane and Jeffrey Brown

Worries over Chinese leader weaken equities

ASIA PACIFIC

China stocks fell steeply on political worries as concern for the health of Deng Xiaoping, the nation's paramount leader, swept through **SHANGHAI** *and* **SHENZHEN**.

Shanghai's hard currency B shares index came off 4.75 or almost 7 per cent to 63.45. This was within a whisker of the day's low. Volume in B shares was close to 20m.

In Shenzhen, the B share index retreated 14.59 to 137.72. "There is a widespread rumour that Deng is in a critical condition. This time it sounded very different from previous rumours," said one dealer.

The rumours took hold as top Chinese officials cancelled provincial tours and returned to Beijing.

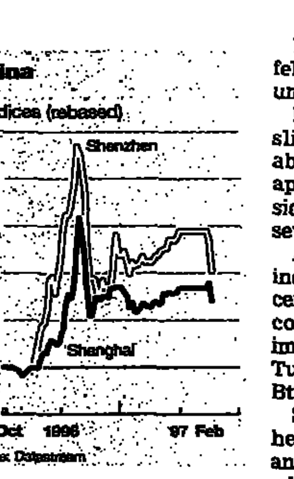
TOKYO fell 1.5 per cent as profit-taking prevented equities from improving on their best winning streak of the financial year, *writes Jonathan Annells.*

The Nikkei 225 average fell 279.90 to 18,470.75, its session low, after peaking at 18,727.59. Investors cashed in on the rally which had *boosted the benchmark* index by over 980 points, or almost 5 per cent, over the five trading days to Monday's close.

Although there was no particular trigger, brokers said the news that Moody's Investors Service, the credit rating agency, had placed the debt ratings of Nippon Credit Bank, Industrial Bank of Japan, and Long-Term Credit Bank of Japan on review for a possible downgrade had not helped sentiment.

With a market holiday in the United States on Monday, the lack of foreign buying made it easier for profit-takers to drive prices lower.

Rallies have lasted three to five days in the current financial year, but the market has not managed to rise for six consecutive sessions.



Volume eased from 395m shares to an estimated 392m. Declines outnumbered advances by 724 to 368 with 152 unchanged. The Topix index of all first section stocks fell 12.62 to 1,381.12, and the capital-weighted Nikkei 300 by 2.77 to 265.14.

In London, the ISE/Nikkei 50 index rose 3.88 to 1431.77.

Concern over the size of loan guarantees extended by the general contractors hurt the construction sector. Taisei ended Y33 lower at Y502, *Shimizu by Y39 at* Y721, and Obayashi by Y34 at Y650.

Profit-taking hit Sony, but even after tumbling Y200 to Y8,800, the electronics giant was still showing a gain of Y1,110 since the beginning of the calendar year. TDK fell Y170 to Y8,110, and Tokyo Electron plunged Y240 to Y2,450. Honda bucked the trend, adding Y20 to Y3,710, after pushing its all-time high to Y3,800.

The over-the-counter market ended down for the ninth session in a row, and for the 24th time in 30 trading days this year, suggesting that the recent cutting of commissions by brokers had not increased the high-risk market's appeal amid a general flight to quality.

In Osaka, the OSE average fell 99.55 to 19,432.48 in vol*ume of 88.6m shares.*

BANGKOK continued to slide lower with worries about rising interest rates applying additional down*side pressure to an already* severely weakened market.

At the close, the SET index was off 8.05 or 1.1 per cent at 700.15 as interest rate concern undermined the important financial sectors. Turnover stayed modest at Bt2.8bn.

Switching out of financials helped lift Thai Telephone and National Petrochemical, which rose Bt2 to Bt23.25 and Bt2 to Bt22.25 respectively. Bangkok Bank lost Bt3 to Bt164.

TAIPEI had a see-saw day in heavy volume. The *weighted index plunged* more than 162 points at the opening, but clawed back later in the session to close off 45.15 at 7,642.03. Turnover was T$139bn.

Financials lost most ground. China Development shed T$3.50 or 3.3 per cent to T$104. There was support for electronics. Acer gained T$3 or 5.1 per cent to T$61.50.

JAKARTA clawed above 700 on the composite index shortly after the opening bell, but then spent the rest of the session drifting lower. At the close, the index was off 6.55 or 0.9 per cent at 695.22.

Sentiment was partly unsettled by the fall in regional markets following *reports that the health of the* Chinese leader was deteriorating.

BOMBAY succumbed to profit-taking and the 30-*share index dropped* 50.44 or 1.4 per cent to 3,580.29.

Foreign investors stayed out of the market but there was heavy selling by locals amid speculation on the shape of the upcoming budget, due at the end of the month.

ITC, the tobacco conglomerate, fell Rs10.25 to RS416.25 and Tisco came off Rs3.75 to Rs196.

SINGAPORE lost ground with the Straits Times index retreating 26.31 or 1.2 per cent to 2,229.79. Dealers said the big negative was the political uncertainty in China.

SEOUL consolidated, and blamed the inter-Korean issue and the Hanbo loan *scandal as the composite* index fell 5.99 to 706.94.

KARACHI ended 2.25 per cent higher on the first day of a new account, with blue chips gaining ground and speculative buying lifting second-tier stocks.

The KSE 100 index rose 38.86 to 1,766.77. Engro Chemical Pakistan, a blue chip, jumped PRs6 to PRs166, on expectations that it would announce good results for 1996 today.

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the Indices.

NATIONAL AND REGIONAL MARKETS	MONDAY FEBRUARY 17 1997								FRIDAY FEBRUARY 14 1997					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	52 week High	52 week Low	Year ago (approx)
Australia (76)	220.89	0.7	202.55	173.75	195.16	191.56	0.5	3.97	219.43	200.69	172.27	192.36	190.54	224.61	188.44	199.61
Austria (24)	181.50	–0.9	166.43	142.77	160.36	160.29	–0.2	1.82	183.24	167.59	143.86	160.63	160.56	195.04	174.70	185.79
Belgium (26)	228.06	–0.9	209.13	179.39	201.50	197.30	–0.1	3.26	230.17	210.51	180.70	201.77	197.43	233.47	203.64	209.18
Brazil (28)	237.01	1.0	217.33	186.43	209.41	457.51	1.0	1.33	234.65	214.61	184.22	205.70	453.17	237.01	147.48	162.06
Canada (114)	202.39	–0.1	185.59	159.20	178.82	198.14	0.0	1.86	202.67	185.36	159.11	177.67	198.14	203.24	153.61	156.30
Denmark (32)	367.47	–0.7	336.96	289.05	324.68	323.81	0.1	1.35	370.09	338.48	290.55	324.43	323.46	370.09	291.30	302.64
Finland (28)	258.44	–1.0	236.98	203.29	228.34	272.95	–0.3	1.89	261.05	238.76	204.95	228.85	273.68	262.79	174.47	180.06
France (91)	219.78	–0.6	201.53	172.88	194.18	197.69	0.2	2.49	220.96	202.11	173.49	193.72	197.24	222.08	183.87	185.08
Germany (59)	192.73	–1.2	176.73	151.60	170.29	170.29	–0.4	1.49	195.08	178.42	153.16	171.02	171.02	195.08	164.47	171.55
Hong Kong (59)	482.15	0.2	442.12	379.26	426.00	479.72	0.2	3.24	481.01	439.93	377.63	421.67	478.57	514.49	402.53	451.17
Indonesia (27)	*247.70*	*–0.5*	*227.14*	*194.84*	*218.85*	*362.26*	*–0.4*	*1.47*	249.01	227.74	195.49	218.29	363.79	-	-	-
Ireland (16)	335.88	–1.3	307.99	264.20	296.76	300.34	–0.8	3.13	340.20	311.15	267.08	298.23	302.81	340.20	254.35	261.84
Italy (58)	89.68	–2.4	82.23	70.54	79.24	112.36	–1.5	1.87	91.89	84.05	72.14	80.56	114.06	96.32	70.61	74.05
Japan (480)	114.17	0.1	104.70	89.81	100.88	89.81	0.3	0.87	114.10	104.35	89.58	100.02	89.58	164.66	109.16	153.85
Malaysia (107)	645.97	0.1	592.34	508.12	570.75	619.23	0.3	1.01	645.16	590.06	506.50	565.56	617.20	650.25	512.47	525.37
Mexico (27)	1407.51	0.7	1290.65	1107.15	1243.60	11957.26	0.6	0.92	1397.81	1278.44	1097.40	1225.37	11890.90	1407.51	1046.55	1138.59
Netherland (19)	345.24	0.9	316.58	271.57	305.04	300.57	1.7	2.46	342.06	312.85	268.55	299.86	295.43	345.24	274.35	280.06
New Zealand (14)	89.08	0.0	81.68	70.07	78.70	68.21	0.2	4.09	89.05	81.45	69.91	78.06	68.06	95.60	75.94	79.35
Norway (41)	312.39	–0.3	286.46	245.73	276.01	286.37	0.6	1.83	313.39	286.63	246.04	274.73	284.57	319.57	234.84	236.15
Philippines (22)	206.57	–0.7	189.42	162.49	182.51	271.22	–0.7	0.63	207.97	190.21	163.27	182.31	273.04	-	-	-
Singapore (43)	447.73	–0.1	410.56	352.18	395.59	292.63	0.0	0.94	448.01	409.75	351.73	392.74	292.76	460.80	371.28	456.99
South Africa (44)	361.21	0.4	331.22	284.12	319.14	348.44	0.3	2.35	359.72	329.00	282.41	315.34	347.24	407.87	301.49	407.87
Spain (35)	215.20	–0.5	197.33	169.27	190.13	234.23	0.1	2.67	216.32	197.85	169.83	189.64	233.93	226.16	161.86	171.06
Sweden (50)	432.89	0.2	396.95	340.51	382.48	475.85	1.1	1.93	431.84	394.96	339.03	378.56	470.68	432.89	312.42	312.42
Switzerland (35)	248.04	–0.2	227.45	195.11	219.16	227.67	1.0	1.28	248.65	227.42	195.21	217.97	225.45	264.34	226.68	228.08
Thailand (45)	77.98	1.3	71.51	61.34	68.90	78.92	1.2	4.33	77.01	70.43	60.46	67.51	77.99	189.40	75.46	189.40
United Kingdom (211)	280.66	–0.3	257.36	220.77	247.97	257.36	–0.1	3.72	281.58	257.54	221.07	246.85	257.54	283.17	224.39	235.50
USA (654)	328.70	0.0	301.41	258.56	290.42	328.70	0.0	1.81	328.70	300.63	258.06	288.15	328.70	329.89	254.79	264.25
Americas (823)	301.03	0.0	276.04	236.79	265.97	253.14	0.0	1.80	301.00	275.29	236.31	263.86	253.10	302.03	233.09	241.16
Europe (725)	242.77	–0.5	222.61	190.96	214.50	224.71	0.1	2.63	243.95	223.12	191.52	213.86	224.37	244.53	201.66	204.70
Nordic (151)	375.79	–0.1	344.58	295.60	332.03	358.85	0.7	1.82	376.33	344.20	295.45	329.91	356.41	376.43	276.30	277.56
Pacific Basin (873)	135.71	0.1	124.45	106.75	119.91	105.44	0.3	1.37	135.55	123.97	106.42	118.83	105.16	177.01	131.50	167.42
Euro-Pacific (1598)	180.32	–0.2	165.34	141.84	159.32	150.49	0.2	2.08	180.72	165.28	141.88	158.42	150.18	181.51	176.40	182.85
North America (768)	321.06	0.0	294.41	252.55	283.68	320.08	0.0	1.82	321.09	293.67	252.08	281.47	320.08	322.23	248.65	257.58
Europe Ex. UK (514)	217.15	–0.6	199.12	170.81	191.86	202.38	0.3	2.00	218.40	199.75	171.46	191.46	201.81	219.12	181.80	183.63
Pacific Ex. Japan (393)	314.55	0.3	288.44	247.43	277.92	273.90	0.3	2.70	313.73	286.94	246.30	275.03	273.13	320.85	258.97	292.69
World Ex. US (1811)	184.40	–0.2	169.09	145.05	162.92	158.71	0.2	2.06	184.74	168.96	145.03	161.95	156.38	193.47	177.71	184.36
World Ex. UK (2254)	225.68	–0.1	206.95	177.52	199.40	200.98	0.1	1.75	225.85	206.56	177.31	197.98	200.72	225.97	199.58	206.34
World Ex. Japan (1985)	289.64	–0.1	265.59	227.83	255.91	279.50	0.1	2.13	290.00	265.24	227.68	254.23	279.27	290.54	233.10	239.50
The World Index (2465)	230.40	–0.1	211.27	181.23	203.57	206.15	0.1	1.94	230.62	210.93	181.06	202.17	205.93	230.67	202.32	208.92

Latest prices were unavailable for this edition. Market closed 17/2/97: USA.

Albania

There were bright expectations six years ago when Europe's poorest country emerged from a communist regime's repression. Now those hopes are in tatters, report **Kevin Done** and **Kerin Hope**

Progress shown to have a thin veneer

Albania's President Sali Berisha is reaping the whirlwind. After a reckless 12 months in which his ruling Democratic party staged deeply-flawed general elections to consolidate its hold on power, the country has been plunged into turmoil again by the collapse of a string of fraudulent pyramid finance schemes.

Weeks of violent clashes between police and desperate investors, many of whom have lost their life's savings, have led to the authorities losing control of several towns in the south of the country as public buildings and local offices of the Democratic party have been attacked and burned.

"The government turned a blind eye to these schemes because it wanted to be re-elected. The population was happy – they were getting money from heaven – and the government did not want to rock that boat," says a leading western financial official. Savers were encouraged to invest by the close identification of some of the deposit-taking companies with the Democratic party during last year's election campaign.

Albania suffered worse repression than any country in former communist eastern Europe, and emerged chaotically into the modern world in 1991 with scarcely any of the structures that a western state takes for granted.

The pyramid schemes' collapse is exposing just how thin has been the veneer of the country's progress in the past six years towards building the institutions of a pluralist democracy and a free market economy. The turmoil raises fresh doubts about Albania's ability to overcome the legacy of its past and to cope with the rigours of transition as it tries to achieve its long-term goals of joining Nato and the European Union.

The chaos poses awkward questions, too, for western countries, whose backing of Mr Berisha has helped him to consolidate a regime which has become increasingly authoritarian and undemocratic.

In the first years of his presidency, the former cardiologist and Communist party member was able to count on unquestioning support from his allies in the US and in the European Union. Anxious to avoid Albania being sucked into the deeper conflicts of the surrounding Balkans and the war being waged in neighbouring former Yugoslavia, they chose to see him as a bulwark of democracy in the region.

During the first half of the 1990s Albania appeared to have become an island of surprising stability in the Balkan cauldron. But as the first signs of economic recovery began to emerge, the country was also becoming caught up in a growing lawlessness, which the fledgling institutions of a newly democratic state have been hard-pressed to counter.

Corruption is endemic in Europe's poorest country, where average public sector wages are less than $100 a month, where gross domestic product per capita at around $850 is on a par with many African countries, and where the economy is kept afloat only by the inflow of hundreds of millions of dollars a year from Albanians working abroad and from foreign aid, most importantly from the European Union, Italy, the World Bank, Germany and the US.

Illegal activities, ranging from drugs and arms trafficking to the movement of clandestine immigrants across the Adriatic to Italy, have been able to flourish in an environment supported by widespread smuggling, in particular of oil, into neighbouring Montenegro and Serbia during the years of UN sanctions on Yugoslavia.

The foundations of the first pyramid schemes were laid four to five years ago in a country lacking a functioning banking system and in which the majority of financial transactions were carried on through informal channels, encouraging the use of the schemes for money laundering.

The real pyramid scheme "mania" only developed during 1996, however, as the government, intent on gaining re-election, chose to ignore central bank warnings of their dangerous growth.

New schemes were formed, competition drove up interest rates, and some Albanians began to sell their homes, land or livestock to take advantage of promises from so-called charitable foundations to double their money in just two to three months.

The collapse of the schemes, which is still under way, is causing the loss of hundreds of millions of dollars in household savings and is plunging many Albanians back into the poverty of the early 1990s.

"These were the funds that should have gone into creating small businesses or paid for stakes in companies being privatised. They should have been captured in savings accounts or gone into new housing," says a foreign banker.

The failure to act earlier to halt the growth of the pyramid schemes and to create sound financial institutions in place of the creaking state-owned banks is also part of a wider malaise.

Concern on issues such as the undermining of the independence of the judiciary and intimidation of the media, has been growing for months, but it was the conduct of last year's general elections that finally set alarm bells ringing in some western capitals, in particular in Washington.

The election was widely condemned by international observers amid allegations from the opposition parties of far-reaching ballot-rigging, intimidation and violence.

The recently-published US human rights report says that "the flawed May elections, coming at a time of further government pressure on the judiciary and the press, were major steps backwards for democracy". According to the US study, organised crime has surged, the government's human rights record has worsened, while the judiciary is "hampered by political pressures, insufficient resources, inexperience, patronage and corruption".

Less than two years ago, Albania was the International Monetary Fund's model pupil, with inflation down to 6 per cent and economic growth outstripping any other country in former communist eastern Europe. Those gains had already started to slip away in last year's fateful election year as the government began to lose control of the budget deficit, inflation started to rise, and the momentum of reform and privatisation was lost.

Now the challenge facing Mr Berisha has taken on formidable dimensions. He himself faces the hurdle of re-election, probably in April, albeit by a parliament in which his party holds unchallenged sway.

The fragmented opposition parties are seeking to rally their forces in the newly-created Forum for Democracy, which is calling for the formation of a "technical government" and for the holding of fresh elections. But with the main opposition Socialist party itself suffering from deep internal divisions, the opposition has yet to show that it can exploit popular anger with the Berisha regime.

Western countries, the main aid donors to Albania, are still floundering in their response to the current crisis.

The European Union is split, with some northern European states keen to exert pressure on Mr Berisha by cutting aid contributions, while close neighbours such as Greece and Italy, vulnerable to a mass exodus of illegal Albanian immigrants, are anxious to take a softer line.

The US has reversed its former policy of unwavering support for Mr Berisha. It is still calling for round-table talks with the opposition, the drafting of a new constitution, and the holding of fresh elections.

Mr Berisha's most pressing need is to restore calm to the streets. So far he has avoided the temptation of ordering a government bailout, with the likelihood of triggering hyperinflation. But that stark risk remains.

ALBANIA

- Area: 27,398 sq km
- Population: 3.2 million
- Language: Albanian. Principal dialects: Gheg, Tosk
- Main towns & population (1996): Tirana (capital) 550,000; Durrës 170,000; Elbasan 120,000; Shkodra 100,000
- Currency: 1 Lek = 100 quindarka. Exchange rate: February 13 1997 $1=Lek122.6020

Government and constitution

Head of state
President, Sali Berisha, was elected by the People's Assembly, April 1992

Head of government
Prime minister Aleksander Meksi

National government
The Democratic Party government was sworn in on July 12 1996, succeeding a Democratic/Republican coalition.

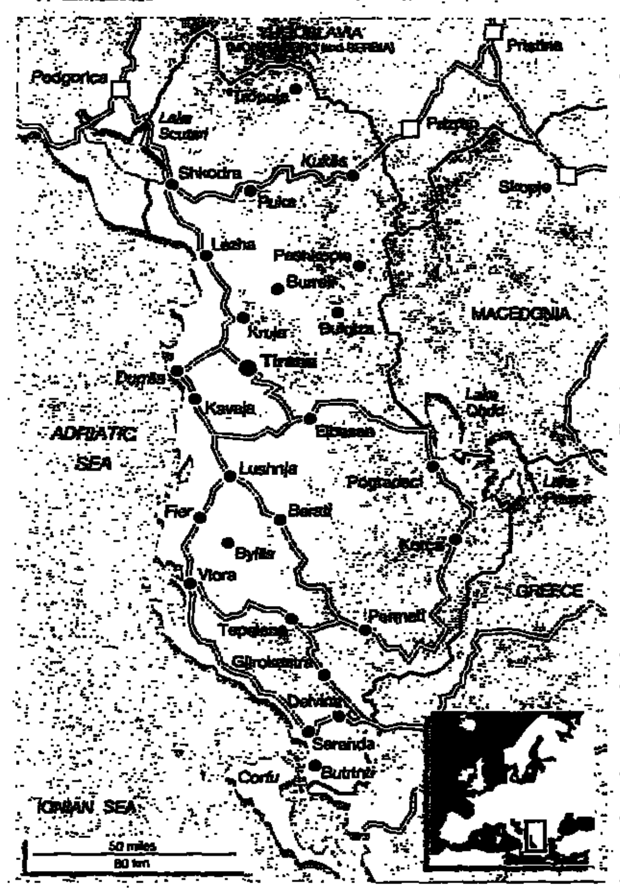
Legal system
Interim constitution following the abandonment of Marxist-inspired constitution.

National legislature
Unicameral People's Assembly of 140 members; 115 seats are contested by majority voting in single-member constituencies over two rounds, and 25 seats allocated by proportional representation to those parties with more than 4% of the national vote.

National elections
Next elections due by April 15 1997 (presidential) and May 2000 (parliamentary)

Main political parties
- Democratic Party (DP)
- Democratic Alliance (DA)
- Socialist Party of Albania (SPA, the former Communists)
- Social Democratic Party (SDP)
- Social Democratic Union (SDU)
- Union of Human Rights (UHR, representing the Greek ethnic minority)
- Republican Party (RP)
- Balli Kombetar (National Front)

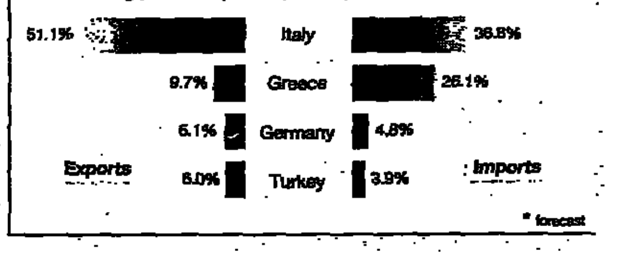
Sources: Europa, Planecon, EIU, Datastream



Economic summary

	1996*	1997*
Total GDP, current prices ($bn)	2.74	3.32
Real GDP growth (annual % change)	8.7	7.7
GDP per head ($)	829	991
Inflation, average (annual % change in CPI)	12.2	17.8
Real wages (annual % change)	9.7	7.2
Industrial production (annual % change)	8.7	8.5
Unemployment rate, year-end (% of workforce)	9.4	8.6
Foreign Direct Investment ($m)	140	180
Government budget balance (% of GDP)	-6.5	-7.5
Gross convertible currency debt ($m)	804	940
Current account balance ($m)	-190	-230
Exports ($m)	287	373
Imports ($m)	914	1,083
Trade balance ($m)	-627	-710

Main trading partners (Jan-Sept 1995)



* forecast

IN THIS SURVEY

Production editor: Ian MacDonald

THE ECONOMY • by Kevin Done

Foundations exposed by pyramids' collapse

The failure of get-rich-quick schemes casts a further dark cloud over prospects

Mr Ardian Bano is a partner in a fashionable clothes store in Tirana. He is a medical doctor by training, but financial pressures forced him into business just under two years ago. The Tirana store, Nino Vitali Creations, is the third shop he has opened with his Albanian and Greek partners.

Suddenly, the future of this fledgling business, along with much of the Albanian economy, has been cast into doubt. The collapse of the pyramid finance schemes is having a drastic impact on trade.

"Business is down to 40 per cent of what it was in November," he says. "People were living off their interest before, but now they are shocked, they are waiting. The situation is difficult. People don't have money to spend. Purchasing power is low so we need a very long time to turn over stock."

Lauded less than two years ago by many western financial observers as one of the models of transition in eastern Europe, the Albanian economy has left the rails during the past 12 months, and economists both in Albania and in western capitals are deeply uncertain about its prospects. Its last economic support package from the International Monetary Fund lapsed in mid-1995 after the first two years of a three-year deal, and it still faces painful negotiations to secure a new agreement this year.

The fast growth in gross domestic product achieved during the past four years has come from a very low base. Albania is the poorest country in Europe, with a level of development comparable with many countries in Africa. With a GDP per capita of around $900 and an average monthly wage of some $80, it was not in robust shape to withstand the devastating losses of savings inflicted by the collapse of the pyramid finance schemes.

The process of unravelling these schemes is still far from over, and it is too early to assess the extent of the damage inflicted on the economy. The signs of concern are already evident, however.

The currency, for several years one of the most stable in eastern Europe, has been devalued by around 25 per cent since the beginning of the year as confidence has ebbed in the foreign exchange market.

The rate of inflation is rising, and had already climbed to around 18 per cent year-on-year in December from only 6 per cent a year earlier.

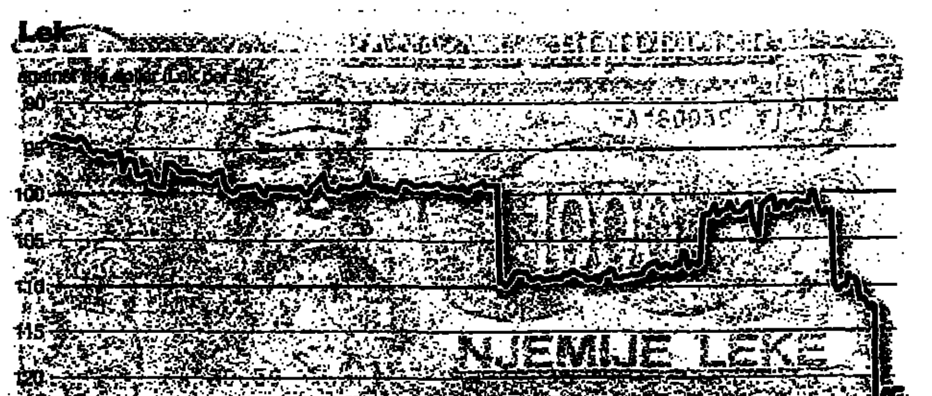
The budget deficit is under heavy pressure, with the domestically-financed deficit rising to 10 per cent of GDP last year from 7 per cent in 1995.

For the moment, the government still has no budget in place for 1997 and is operating on an emergency one for the first three months of the year. At one point in 1996 the excesses of election year had taken such a toll on economic management that the government resorted to financing itself on a zero interest overdraft from the state-owned banks.

Little can be determined on the economic front until the government succeeds in resolving the immediate challenge it faces on the streets of cities across the country, where for the moment it appears to be losing the fight to maintain public order in places like the southern port city of Vlora.

The ultimate price of paying off demonstrators and restoring calm through some type of government bail-out of devastated savers could easily take Albania into a spiral of hyperinflation.

So far, President Sali Berisha has held the line against calls for a state-financed rescue of depositors. But the ultimate trade-off between restoring peace on the streets by resorting to the government money printing press, or confronting civil disorder while maintaining some control of monetary and fiscal policies, is yet to be resolved.



Source: Datastream

"The effects of the crash of the pyramid schemes will be quite severe," says one leading western financial official. "They must collapse, but it is very tricky for the government. No one wants to be blamed. Now it is a question of damage control.

"A lot of people have lost all of their money. They must rebuild their savings. The effect on the economy could be a big shock, with a contraction of activity. Growth will slow as a result. It is vital the government does not undertake any bail-out, but the pressure for a bail-out is huge."

Mr Ridvan Bode, who was appointed finance minister in July last year, insists that "to date we have not put new money into circulation. We have not thought to give money to people who have deposited in schemes that have collapsed without assets."

He admits that the collapse of the schemes "will hit consumption, will cause inflation", but he maintains that there could also be a positive long-term impact as the country overcomes the collective mania of last year. "It could be positive, because people will want to be more responsible and will want to work and be more careful with their money and not just invest in such fraudulent schemes that were illusions."

For the moment, government forecasts for 1997 are in tatters. The target had been to reduce the rate of inflation to around 10 per cent year-on-year by December and to achieve another year of double digit growth in gross domestic product. "All this must now be revised by the effects of the crisis," says Mr Edmond Leka, director of the government's department for economic development and foreign aid co-ordination.

Albanian government data suggest that GDP growth was as high as 14 per cent last year, following growth of 13.3 per cent in 1995, 8.3 per cent in 1994 and 9.6 per cent in 1993, when the country began its painful climb out of the chaos of the early 1990s following the collapse of communism.

Western financial observers believe that these figures are grossly exaggerated, but IMF estimates of growth of 8 to 9 per cent in 1996 would still place Albania among the fastest expanding economies of eastern Europe.

Agriculture still accounts for more than 50 per cent of Albanian economic output, but Mr Leka maintains that its role as the engine of growth in the early years of recovery in the mid-1990s has now been overtaken by expansion in services and construction and, for the first time last year, by industry.

Government estimates, which can be used to suggest trends if not actual performance, show that construction output jumped by 18.3 per cent last year, with services growing by 25 per cent and industrial output by 15.8 per cent. Previously, in the turmoil of transition and with the closure of many state-owned heavy industries, the share of industry in GDP had declined from 41 per cent in 1989 to around 11.9 per cent last year, according to Mr Leka.

The share of agriculture grew from 35.5 per cent in 1989 to 52.3 per cent last year, with more than half of the population still living in rural areas, and many engaged in subsistence agriculture. Last year, construction accounted for around 10.7 per cent of GDP and services for 22 per cent, up from 13 per cent in 1989.

Despite the relative economic success of the three years from 1993 to 1995, the foundations of the Albanian economy remained fragile at best, and they now stand dangerously exposed by the collapse of the pyramid schemes.

Albania is overwhelmingly dependent on imports for its survival. It runs a trade deficit equivalent to more than 20 per cent of GDP, with imports (estimated last year at around $900m) running more than three times the size of exports. The only way that the country stays afloat is through the foreign financing it receives firstly from the remitances of the hundreds of thousands of Albanians who fled the country in the early 1990s in search of work, and secondly from foreign aid.

The current account deficit is estimated to have totalled 7 to 8 per cent of GDP at around $200m last year.

Remitances are believed to have totalled around $300m annually in recent years, but western officials suggest the amount could have reached $400m last year in the final mania of pyramid scheme investment.

If this flow were now to be seriously curtailed, Albania could rapidly face a growing balance of payments crisis. The foreign exchange reserves of the Bank of Albania had held steady until recent weeks at around $280m, but it has begun to intervene quite heavily to support the currency, the lek, in the foreign exchange markets.

"The immediate prospect is for a lot of turmoil in Albania," says a leading western financial official. "We are not talking about a balance of payments crisis yet, but things can move very fast."

● Foreign aid, Page 6

BANKING • by Kevin Done

Lack of trust, lack of services

Investments by Greeks offer hope of putting troubled sector on its feet

The absence of a properly-functioning banking system has been one of the key institutional deficiencies that has dogged Albania's turbulent emergence from communism.

The lack of trust in the state-owned banks and these institutions' inability to develop modern banking services have provided fertile ground for the development of informal financial markets and for the setting up of the string of pyramid finance schemes, whose progressive collapse has now plunged Albania into a political and financial crisis.

Some hopeful signs have emerged in recent months, however, with the belated entry of several foreign banks into Albania. Led by three leading Greek banks – Piraeus Bank, National Bank of Greece, and Alpha Credit Bank – the arrival of these institutions finally promises to provide competition for the state-owned banks with the provision of modern, efficient services.

Bank of Albania, the central bank, remains under heavy pressure on the licensing and supervisory front, however, with applications for banking licences having also been filed by some leading deposit-taking companies, such as Vefa Holding, which at the same time are under investigation for operating as pyramid schemes.

The lack of progress in restructuring and in privatising the three state-owned banks – Savings Bank, National Commercial Bank, and Rural Commercial Bank – is providing a growing source of friction between the Albanian government and the international financial institutions.

A firm commitment to reform of the sector is expected to be one of the key conditions on which the International Monetary Fund will insist before it is ready to sign any new economic support package for Albania.

Rural Commercial Bank and National Commercial Bank in particular are burdened by a heavy weight of non-performing loans, which have reached as high as 60 per cent of the loan portfolio at the Rural, according to Mr Ridvan Bode, finance minister.

"We will try to sell these banks to strategic investors, foreign or Albanian," says Mr Bode, "but this process has not gone so well because of the pyramid schemes."

Mr Bode says the IMF is pressing for the privatisation or closure of Rural Commercial during 1997, with similar action to be taken on National Commercial next year.

Concerns about the state of Rural Commercial have reached such a point that the European Union has insisted on moving funds for an agricultural project away from the bank to the Savings Bank. The World Bank has concerns about the operation of three of its credit lines with the deteriorating financial management of Rural Commercial.

A recent study by PlanEcon, the US-based economic analysts, said that "Albania's two-tiered banking system is the least developed in the region. A majority of financial transfers take place outside the formal banking sector. Banks simply have not developed the capability or credibility to attract Albania's financial resources... Albania's financial system is not yet capable of penalising borrowers who are delinquent on loans. Reports have also surfaced about government officials abusing their positions to receive credits that are not guaranteed with collateral".

Mr Bode insists that the government is now committed to its recently-announced timetable for completing the privatisation of state-owned banks by 2000.

"We are restructuring," he says. "The problem we are facing is the recapitalisation of these banks because they have many bad loans and losses."

The present restructuring plan calls for the number of branches of Rural Commercial to be reduced from 33 to nine and the number of National Commercial branches to be cut from 32 to eight, with the closure of the loss-making units. All state budget functions carried out by these two banks are to be transferred to Savings Bank.

Western bankers, however, remain sceptical about the possibility of attracting foreign strategic investors to take over either bank. "Why buy an Albanian bank? There is no attraction in staff, buildings, know-how or assets," says one foreign banker who has studied the market closely.

The Greek banks which are entering the Albanian market believe that there are attractive business opportunities for new arrivals, however.

"They are trying hard to establish a banking system," says Mr Byron Pitsilides, general manager of Tirana Bank, which opened as a subsidiary of Piraeus Bank last September. "The country has a potential for development from tourism to construction and light industry and manufacturing. The place is small; the ones that come first will do the business."

Tirana Bank is already doubling its initial start-up capital from $2m to $4m, with further increases under consideration, says Mr Pitsilides. Two more branches are planned for this year in the oil town of Fier and possibly in Gjirokastra in the south or in the port city of Durres. "We eventually plan eight branches under present circumstances, but we could go higher," he says.

Mr Alexandros Katsiouris, manager of the Tirana branch of National Bank of Greece, which opened in November, expects to attract business both from the growing number of Greek businesses operating in Albania and from the very large number of Albanians working in Greece.

PROFILE Kristaq Luniku, central bank governor

Feeling the cold again

Mr Kristaq Luniku's slight, boyish frame has become bent under the unremitting strain of confronting Albania's worst financial crisis.

No one has struggled harder than the 34-year-old central bank governor to end his country's poverty-stricken isolation from the rest of Europe and to build a modern monetary system with efficient, well-supervised banks.

But in recent weeks, at times with armed soldiers protecting the Bank of Albania in the face of riots triggered by the collapse of a string of pyramid finance schemes, he has been in despairing mood, and the bank has appeared dangerously isolated.

"I work like a dog for years, and now this happens. It is blood running into the sand," he says as he contemplates the undermining of his efforts to build the country's financial system from scratch and to establish monetary stability.

The inflation rate, reduced to 6 per cent year-on-year at the end of 1995, has tripled in the past year, and the value of the Albanian lek – for three years one of the most stable currencies in eastern Europe – has lost nearly a quarter of its value in the first troubled weeks of this year.

Exiled from Tirana in the second half of the 1980s because of a suspect family history stemming from his grandfather's emigration to the US before the first world war, the ascetic Mr Luniku learned monetary policy and foreign languages from books while working at a remote branch of a state bank in Albania's northern mountains.

He had been exiled to Puke, "one of the poorest and coldest areas of the country", despite graduating in economics in 1986 with the best marks in his year.


Kristaq Luniku: has earned the respect of his peers worldwide

"I thought I was going to work at the university, I had the top marks, but you needed a political friend, and I had not got one," he recalls.

He was brought back to the monolithic state bank in Tirana in 1990 with a brief to develop monetary policy, and was drafted into the central bank as deputy governor when it was created in 1992. He became governor in December 1994.

Albania emerged chaotically into the modern world in 1991 with scarcely any of the institutions that a western state takes for granted.

It fell to Mr Luniku to establish much of the legal framework and the functions of the country's central bank, a task in which he has taken justifiable pride.

"Four years ago we were just 20 people, now we are more than 300," he says. "Our targets were to establish an efficient monetary policy to allow sustainable growth and to lower unemployment and strengthen the external position of Albania. The other aim was to establish an efficient banking system and financial markets."

Mr Luniku has earned the greatest respect among his peers in western capitals and at the international financial institutions, which have accompanied each painful step of the development of the Bank of Albania. He has fought tenaciously to establish its independence and to cut back its role in financing the state budget deficit.

As he fights to maintain the value of the Lek, Mr Luniku is adamant that there must be no government-financed bail-out of investors in the failed pyramid schemes for fear of triggering hyperinflation.

The central bank began to alert the government about 18 months ago to the dangers posed by the growth of the pyramid schemes, but such warnings only started to be echoed in public by government ministers in October. The revised Bank of Albania law passed in early 1996 effectively banned deposit-taking by any institution other than a licensed bank, but the law has never been implemented effectively by the judicial authorities.

Drafts of other laws on money laundering and usury are still to be passed by parliament.

"No central bank can do more than we have done," says Mr Luniku. "The powerful character of money acts in a very unpleasant way in countries where a market economy is not established and not fully accepted."

Kevin Done

PYRAMID FINANCE SCHEMES • by Kerin Hope

'It's worse than a disaster...'

The opportunity to invest savings at 8% interest per month was too good to resist

Mr Bujar Zeqo, a clarinet player until he fled Albania to work illegally on a Greek farm, is killing time playing bingo in a smoky hall in central Tirana. He lost his entire savings of $24,000 in the collapse of Albania's pyramid finance schemes, and now faces the agonising decision of whether to return to Greece and start all over again.

"It is worse than a disaster," he says. "Our children were looking forward to making their life here. At first I made money, but I re-invested, and now every cent is gone."

Mr Zeqo, 41, planned to set up his own business transporting fresh fruit and vegetables from Berat, in central Albania, to the Tirana street markets in a secondhand van he bought last year. He was looking for a site in the capital to build a house. His three children were to start English classes.

Over the past three years, Albanians have poured their savings into a string of pyramid schemes that paid monthly interest rates exceeding 8 per cent, compared to annual rates of around 20 per cent at the state-owned banks. According to western financial observers, some $1bn was invested in the schemes, equivalent to about 30 per cent of the country's gross domestic product.

The pyramid schemes soaked up remittances from Albanians working in Greece and Italy, whose relatives at home thirsted for consumer goods and a western lifestyle after decades of grim poverty. But the excessive returns on depositors' funds could last only as long as the inflow of funds continued.

Four pyramid schemes have collapsed so far, while five other deposit-taking schemes which claim to have productive investments are still operating. The largest of them, Vefa Holdings, suspended both interest payments and re-payments of depositors' capital at the beginning of February, however.

The violent demonstrations that have racked Albania over the past four weeks, including attacks on government buildings and offices of the ruling Democratic party, grew out of investors' desperation at losing their savings. As pyramid fever mounted in the second half of last year, many Albanians sold their homes and land to invest, with some schemes raising monthly interest rates to as much as 50 per cent.

The unrest is also fuelled by a widespread belief that members of President Sali Berisha's right-wing government were closely linked with several pyramid schemes which helped finance the ruling Democratic party campaign in last year's general elections.

Under pressure from the International Monetary Fund, the government last November set up a so-called "transparency commission" to investigate informal deposit-taking and determine whether companies that appeared to have productive investments were also operating pyramid schemes. It has not yet reported any findings.

The government made an unsuccessful attempt earlier this month to calm unrest by distributing some $227m in funds belonging to the Xhaferri and Populli schemes, which both failed in January, to about 230,000 registered investors. The money was frozen in two state banks and represented 52 and 60 per cent respectively of total deposits in the two schemes, according to the finance ministry.

However, the collapse on February 5 of Gjallica, a deposit-taking company with investments that included a private dental clinic, a brick factory and a dairy plant, underlined the risks faced by investors in schemes that appear to be backed by real assets. Gjallica, based in the southern port of Vlora, was reported to have 80,000 investors and deposits of at least $300m.

Western financial observers believe some schemes were underpinned by income from illegal activities, including drug-running and money laundering, smuggling of oil and weapons to Montenegro and Serbia during the UN embargo against the rump Yugoslavia, and transporting illegal immigrants across the Adriatic to Italy.

Vefa Holdings, which calls itself Albania's largest private company, was among the earliest deposit-taking schemes, offering interest rates of 3 to 5 per cent monthly from 1994, ostensibly to fund productive investment. It raised rates to 10 per cent monthly in January to compete with Xhaferri and Populli, but now says rates will be cut to 3 per cent monthly.

At Vefa's headquarters, a villa in the centre of Tirana guarded by security men in dark glasses and leather jackets, flashing dots on a large map of Albania indicate the locations of Vefa's investments.

"We are not a pyramid scheme," says Mr Vehbi Alimucaj, Vefa's president, cracking his knuckles for emphasis from behind a desk cluttered with statuettes and sports trophies. "In five years of activity we have invested in all facets of life. We have five and 10-year credits from powerful Italian and Hungarian companies. We have helped solve social problems by employing lots of people, about 10,000 to 12,000. We are part of every Albanian family."

Mr Alimucaj's effort to present a western corporate image stops short of giving details of Vefa's balance sheet.

Last month, Mr Alimucaj revived Vefa's application for a banking licence, which was rejected by the central bank last year. Mr Alimucaj and the owners of three other deposit-taking companies under investigation by the transparency commission – Silva, Kamberi and Cena – also announced plans to join forces to establish a private bank.

If Vefa were to shut down, says Mr Alimucaj, "the citizens would rebel". The company is thought to have more than 100,000 investors, among them many employees of government ministries, local staff at international agencies operating in Tirana and members of the Democratic party.

Western officials in Tirana describe Vefa as the country's largest pyramid scheme and warn that measures to overhaul the commercial banking system, which are expected to be among conditions set by the International Monetary Fund for resuming lending to Albania, would be undermined if it was allowed to open a private bank.

Pyramid protest: Albanians, many of whom lost all their savings, take to the streets Photo: Associated Press

POLITICS • by Kerin Hope

Rough road to democracy

A fragmented opposition will attempt to press for new elections to parliament

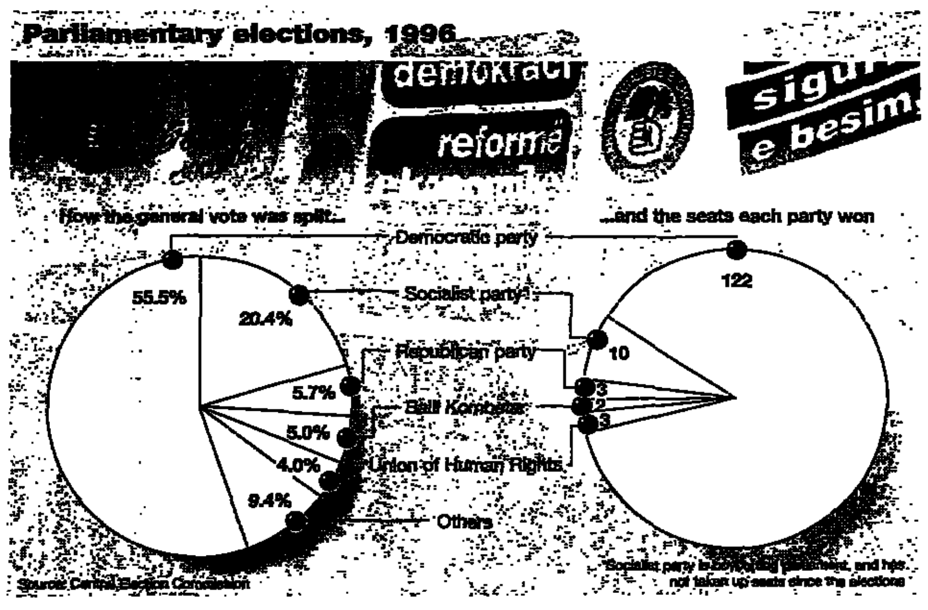
Builders have moved into the headquarters of Albania's ruling Democratic party to transform the crumbling building, with its uneven floors and peeling paintwork, into a gleaming symbol of power. But no refurbishment can mask the right-wing Democrats' discreditable showing at last year's general elections, when they resorted to vote-rigging and intimidation in order to ensure a new four-year parliamentary term.

Albania has stumbled badly on the road to democracy, and the impact of the flawed election is still being felt.

Violence has returned to the streets as demonstrators protest at the disappearance of their hard-earned savings in the collapse of Albania's pyramid finance schemes. President Sali Berisha and the prime minister, Mr Aleksander Meksi, stand accused of allowing the pyramid schemes to flourish as part of building a "feel-good" factor in an election year.

"The main characteristic of this state is the lack of transparency in everything, and only the corrupt don't like transparency. It's not that they can't control the pyramids; they have the means to do it. This is politics, not naivety," says Mr Neritan Ceka, chairman of the centrist Democratic Alliance, a splinter group formed by co-founders of the Democratic party who clashed with Mr Berisha.

In response to the political and financial crisis, the fragmented opposition parties earlier this month set aside their differences to establish a Forum for Democracy, led by the ex-communist Socialist party, to press for new elections. Meanwhile, Mr Berisha, mindful of the barrage of international criticism he faced over his handling of the general elections, has so far attempted to contain the protests rather than quell them by excessive use of force.



Mr Berisha has become more sensitive about using communist-era tactics to maintain his authority since the US, formerly his strongest backer, criticised the elections and started pushing for political reform. First on the agenda would be the preparation of a new constitution, delayed by the government's heavy defeat in a 1994 referendum on draft proposals giving the president greatly increased powers. Next would come fresh parliamentary elections, based on the new constitution.

Albania's political leaders would agree the constitution at an all-party "round-table," proposed by the US to ensure the participation of the main opposition Socialist party. The Socialists are boycotting parliament, claiming the Democrats "stole" the election.

While Mr Berisha has accepted the notion of the round-table, even calling one himself to discuss the pyramid schemes' collapse, he rules out an early election, asserting defiantly that he is "proud and happy" with Albania's electoral record since the Democrats came to power in 1992.

Monitors from the Organisation for Security and Co-operation in Europe, however, said the election was marked by serious irregularities. The so-called "genocide" law banned more than 130 candidates, mainly from the ex-communist Socialist party, from running because of their links with the former Stalinist regime. Police beat up opposition supporters at election rallies. On polling day, May 26, election officials were intimidated, voters harassed and ballot boxes tampered with.

The Democrats won almost 56 per cent of the vote but took 122 of the 140 seats in parliament, thanks in part to the opposition parties' decision not to contest re-runs in 17 constituencies where vote-rigging had been most flagrant. The Socialists captured 20 per cent of the vote but have refused to take up the 10 seats they won.

Nine smaller parties shared the remainder of the votes, but only the right-wing Republican and Balli Kombetar parties and the Union of Human Rights, representing the ethnic Greek minority, are represented in parliament.

Given a chance to redeem their record at local government elections in October, the Democrats claimed to have swept the board again. Only one large city, Shkodra in northern Albania, elected a mayor who was not from the ruling party. The OSCE failed to gain access for its monitoring team a few days before the local government poll, but a western diplomat in Tirana said: "There were some irregularities – isolated incidents of fraud – but they were not enough to change the outcome."

The Socialists, battling to regroup after a bruising party congress, accepted the local election results, and there is pressure from younger members for them to resume the role of a democratic opposition by taking their seats in parliament.

The young reformers have gained ground after forcing their elders to agree to write marxism out of the party constitution and formally accept private ownership and the need to encourage foreign investment.

The Socialists are not likely to sort out their problems until the release from jail of Mr Fatos Nano, the party chairman and a former prime minister, who was sentenced to seven years in 1993 on charges of embezzling Italian aid funds. But younger party members are already clamouring for a different style in opposition.

Mr Ilir Meta, 27, who failed to win the general-secretary's job, the party's most powerful post, at the congress by just three votes, says: "You don't need a super-powerful leader. No one person can guarantee democracy. Things can't go forward without a dialogue, but both sides have been dominated by intolerance. Albania needs a new political class."

● Profile, Page 4

PROFILE President Sali Berisha

Physician to stand by prescription

His supporters praise President Sali Berisha as a reformer who introduced democratic politics and the beginnings of a market economy to Albania. They claim that his forceful personality – together with his fluency in French and English – did much to persuade international credit agencies and bilateral donors that Europe's poorest country, deserved generous backing.

Even his critics concede that Mr Berisha, a 52-year-old former cardiologist, succeeded in making Albania an area of relative stability in the Balkans amid the turmoil of the Yugoslav wars of succession. And few Albanians would dispute Mr Berisha's ambition of eventually integrating his country into the European Union and Nato.

President Berisha: his career faces a big challenge

Mr Berisha now faces the biggest challenge of his short career as a professional politician. His Democratic party has already lost credibility because of its flawed victory in the general election last May, which, according to western observers, was marked by widespread ballot-box fraud and the intimidation of political opponents.

The government's handling of the violent unrest caused by the collapse of a string of pyramid finance schemes will determine both the Democratic party's survival in power and Mr Berisha's own political future.

In an interview last month, the president brushed aside a suggestion that the government ignored warnings from Albania's central bank and the International Monetary Fund of the imminent collapse of the pyramid financing schemes. He indicated, however, that it would follow the advice of western institutions and avoid mounting a rescue scheme for those who lost their life savings.

"Pyramid schemes are a phenomenon of capitalism in various countries at various stages," he said. "Albania will stand firm against them. I'm sad about the pain caused to investors, but we cannot have macro-economic destabilisation which would hurt every Albanian. There can be no political or economic slow-down."

Just over six years have passed since Mr Berisha emerged on the Albanian political scene as a co-founder of the Democratic party, after a student rebellion in Tirana in December 1990 forced President Ramiz Alia to allow the establishment of a pluralist political system.

As a prominent cardiologist permitted to study in France, Mr Berisha belonged to the Albanian establishment, although he vehemently denies that he served as personal physician to any of the elderly Stalinist nomenklatura.

Mr Berisha said that at a crucial meeting of intellectuals with Mr Alia in July 1990, called as the communists' grip on the country was starting to weaken, "I asked him to abolish the article of the constitution giving hegemonous power to the Communist party. He was very aggressive with me, but I defended my positions."

At first Mr Berisha enjoyed a high approval rating, leading the Democratic party to a sweeping victory in the 1992 general election and earning the praise of international observers.

However, since his defeat in a referendum on a new constitution in 1994, when voters rejected proposals to reinforce the president's powers, Mr Berisha has been accused by political opponents of sanctioning the revival of communist-era practices of intimidation and violence.

Faced with the prospect of continuing unrest over the failed pyramid schemes, Mr Berisha will be looking anxiously to the west for political and economic support.

Kerin Hope

DEFENCE • by Kerin Hope

Nation's army is waiting to sign up

The bizarre days are gone; now the military chiefs want membership of Nato

There can be few countries that have developed such bizarre defences as the concrete bunkers built throughout Albania in the 1970s on the orders of Mr Enver Hoxha, the late Stalinist dictator. They still bear witness to his policy of keeping the country poised to defend itself against imaginary invaders, whatever the cost.

From an aircraft approaching Tirana's international airport, ranks of distinctive round bunkers can be seen stretching across the plain, apparently intended to guard the Adriatic coastline.

"About 250,000 were constructed," says Col Bektash Kolasi, director of planning at the defence ministry, "but as it was impossible to communicate between them, they were not of much military use."

Albania has worked hard over the past four years to shed its militarist tradition. The armed forces have been placed under civilian control and their total strength cut from 90,000 to 35,000. About half the officer corps has been made redundant, while the 600,000-strong reserve force composed mainly of villagers, including 150,000 women, has been disbanded.

Albania is an enthusiastic member of Nato's Partnership for Peace – the military co-operation network – and, as defence ministry officials untiringly point out, was the first former communist country in eastern Europe to apply for full membership of the alliance. A small Albanian contingent has been serving with the Nato peace-keeping force in Bosnia.

"We live in a region burdened with armaments," says Mr Leonard Demi, secretary of state for defence. "We'd like to join Nato as soon as possible. We want to meet all the alliance standards and create an effective army with the smallest possible number of personnel."

Albania plans to rely on a small army of 25,000 conscripts, who will serve for 12 months or less, under the command of 6,000 officers and 4,000 NCOs, he says. To help speed up the modernisation, officers who agree to voluntary retirement at the age of 50 will be paid 50 per cent of their salary for two years.

Given Albania's pressing need for investment in rebuilding infrastructure, spending on defence has been reduced sharply. Outlays last year were held down to 1.8 per cent of gross domestic product – the lowest in the region – and 4.3 per cent of government spending, Mr Demi says.

The restructuring has been carried out in close co-operation with the US, which provides military advisers and technical assistance. Officials in Tirana are keen to stress, however, that US military aid to Albania is "non-lethal". They play down a pledge made by Mr William Perry, US defence secretary, during a visit to Tirana last year to provide Albania with aid worth $100m.

The US has been supplying the Albanian army with uniforms, trucks and other vehicles and a wide range of communications equipment "aimed at improving inter-operability with Nato forces," says Col Kolasi. The US also provided five coastal patrol boats to help enforce the UN embargo against Serbia and Montenegro during the war in Bosnia.

An important factor in the US-Albanian relationship has been the willingness of President Sali Berisha's right-wing government to make military facilities in Albania available to US forces carrying out surveillance missions over Serbian territory, as if the country were already a Nato member.

Moreover, Mr Berisha has held firm in public to the western view that neighbouring Kosovo, the Serbian province with an overwhelmingly Albanian population, should not seek independence. Albania's dream of uniting ethnic Albanians in both Kosovo and Macedonia in a Greater Albania is rarely mentioned.

"Albania doesn't have the capacity to defend itself," says a western diplomat. "It makes sense to aim for Nato membership."

Military ties with Greece, the only Nato member sharing a border with Albania, have been restored after a prolonged period of political tension, culminating in a border incident in 1994 in which two Albanian conscripts were killed, allegedly by members of a Greek terrorist group.

Albanian officers have received training in Greece and contacts have intensified between the defence ministries in Tirana and Athens. The Greek defence ministry is paying for the construction of a new wing at Tirana's military hospital.

In the longer term, Albania must address the question of procuring weapons suited to its new, modest needs. The army's obsolete Russian tanks, some built during the second world war, date from Albania's participation in the Warsaw pact in the 1950s. Deliveries of Chinese equipment ceased in the 1970s, but Albania continues to manufacture small arms.

Col Kolasi says the air force's Chinese-made MiG fighter aircraft are still flying, although spare parts are difficult to find. Tanks made in China to a Russian design are also operational. The four Russian submarines which were stranded in a base off the southern Albanian coast when the Hoxha regime split with the Soviet Union in 1960, "are still afloat, but they can't dive any longer."

OIL INDUSTRY • by Kevin Done

Production breakthrough still elusive

Two offshore explorations now under way offer hope for an economic lifeline

The international oil industry has invested more than $150m in oil and gas exploration in Albania since the early 1990s, but the breakthrough that would turn the country into a significant new producer of hydrocarbons in Europe remains elusive.

Hopes are currently pinned on two exploration wells, one offshore and one onshore, which are being drilled by Agip, of Italy, and by Ina Naftaplin, the Croatian oil company. They should be completed in the coming weeks.

As the country reels under the impact of weeks of civil unrest over the collapse of the pyramid finance schemes, any discovery of commercial quantities of oil and gas would assume a huge psychological importance and would provide a lifeline to future economic development.

"We are waiting anxiously for the results of these two wells," says Mr Fatbardh Ademi, director of Albania's national petroleum agency.

Foreign oil companies believe that the introduction of modern exploration and production technologies can help to transform the prospects of the sector.

Much of the plant and equipment currently in use is antiquated and obsolete, and oil output has fallen sharply in recent years from between 2m and 2.5m tonnes a year in the early 1980s to little more than 500,000 tonnes a year – or 10,000 barrels a day – at present. Around 50 per cent of Albania's oil products needs are now imported.

The existing industry faces dire environmental problems onshore, with crude oil leaking directly onto farmland and into streams and rivers from corroded and cracked wellheads and pipes.

Despite such formidable challenges, oil and gas exploration has attracted more foreign investment than any other sector in Albania. But the effort could begin to flag unless there is a significant discovery soon.

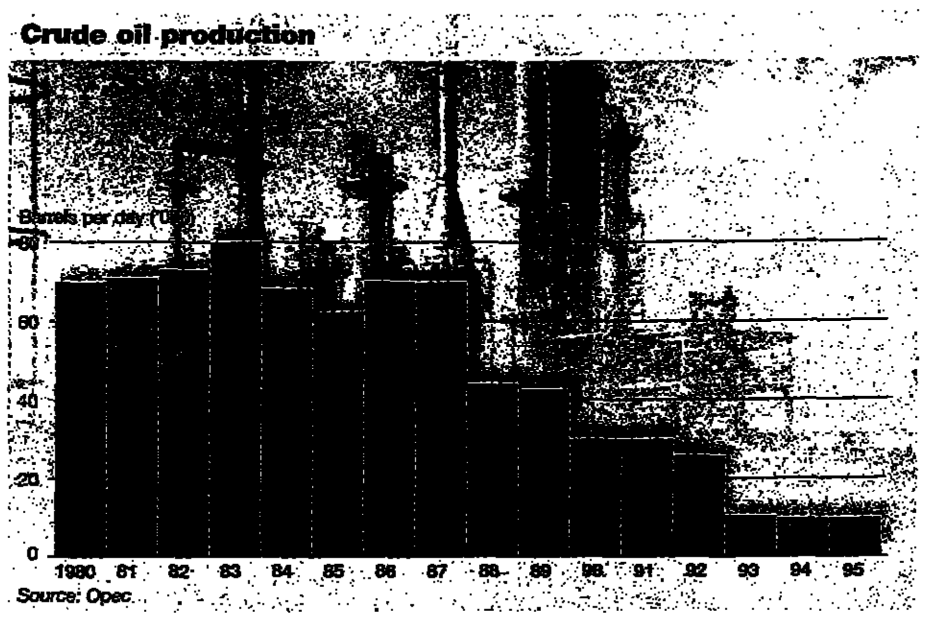
Offshore, three oil groups are still working actively – OMV, of Austria, Occidental, the US oil company, and Agip.

Occidental is due to drill a well in deep water on block Adriatiku 3 in the summer, having completed the preparatory seismic work. The first well drilled on the block in 1995 achieved some gas shows, but it was abandoned after encountering both technical and geological problems and very high pressure.

Most immediate attention is focused on Agip, the operator and contractor on block Adriatiku 4, where the Italian group began work at the end of December on a second well. The first well was drilled jointly with Chevron.

Agip is drilling chiefly for gas. It has identified a structure which is believed to straddle the Italian and the Albanian sectors of the Adriatic, and the group has already found commercial quantities of gas on the Italian side with its earlier Falco discovery.

Crude oil production



Source: Opec

"We must wait for the results of the two new wells on blocks Adriatiku 3 and 4 to be able to make a judgment on where offshore exploration is going," says Mr Ademi. "The early seismic work offshore was very promising, but some structures no longer look so good."

While results from the early years of offshore work have been disappointing to date, some promising opportunities have begun to open up onshore in Albania.

Under concessions granted in the first onshore licensing round of the early 1990s, three companies – the Anglo-Dutch Shell group, Croatia's Ina Naftaplin, and Coparex, of France, are working on four blocks. Ina Naftaplin is currently drilling a deep well at Peza, close to Tirana. It is the first well to be drilled onshore in the modern era by a foreign oil company (excluding a joint venture well completed by Premier Oil of the UK with Albpetrol, the state-owned oil company).

The inhospitable, mountainous terrain of much of Albania makes the country one of the most difficult and expensive in which to carry out seismic exploration work, and the authorities have been forced to allow some of the oil companies more time in meeting their drilling commitments. The first well is unlikely to be drilled by Coparex until 1998.

In order to maintain the momentum of the exploration effort, the agency is pushing ahead with negotiations with the international oil industry for concessions in the second onshore licensing round, which it aims to complete by June. "We are very optimistic after receiving more applications than we expected," says Mr Ademi. "We are confident we are going to sign five or six agreements."

Applicants include OMV and Occidental, as well as new entrants to Albanian oil and gas exploration such as Enterprise Oil and Clyde Petroleum, of the UK, and Anschutz, of the US.

While the big hopes for the Albanian oil and gas industry are pinned on the prospect of new discoveries, Albpetrol, the state-owned oil company, is seeking to improve output from existing fields through a series of joint venture agreements for enhanced oil recovery schemes.

It is working with Premier Oil, of the UK, on a project for steam injection on Albania's biggest onshore field, Patos Marinze, close to the southern town of Fier. The exploratory phase has been completed, and the partners are currently facing tough financing decisions about whether to embark on the development stage that calls for total expenditure of up to $200m over a period of four to five years.

Albpetrol has agreed with Fountain Oil, of the US, on a project that could lead to the drilling of up to 50 horizontal wells to boost production at the Gorisht-Koculi field, and the state-owned group is also awaiting final government approval for an agreement it has reached with the Australian Kitari group for the use of bacterial enhanced recovery techniques on the Cakran-Mollaj and Ballsh-Hekal fields.

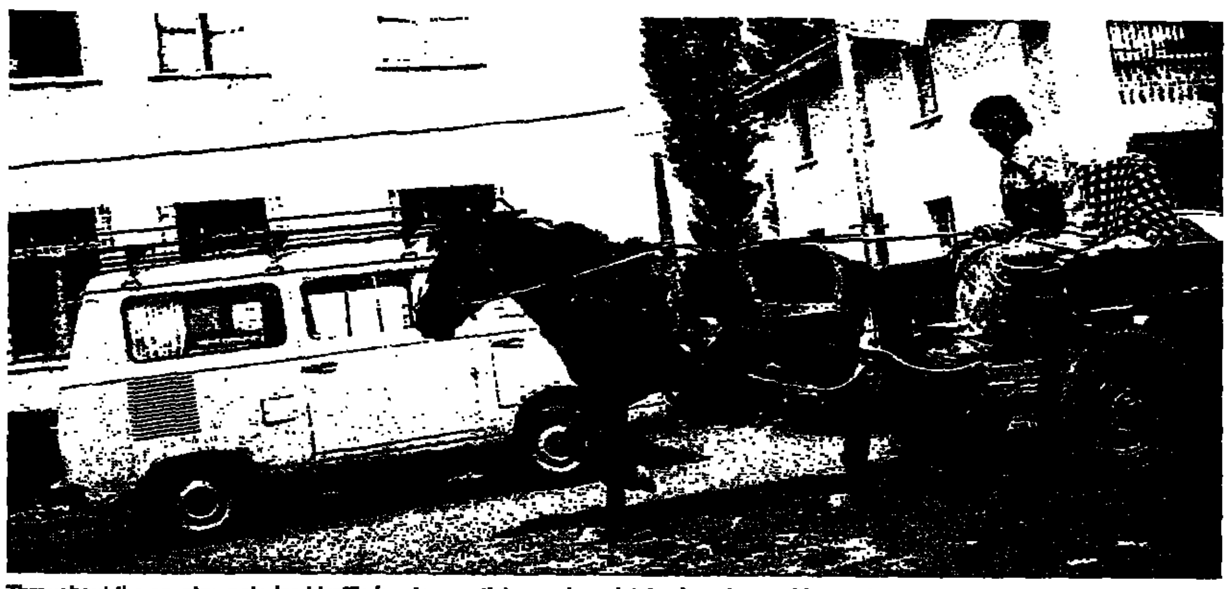
s' collapse

g the cold agai

INFRASTRUCTURE • by Kerin Hope

Utilities are under a huge strain

Investment from the private sector is likely to pave the way for rebuilding



Throughout the country motorised traffic has to negotiate poorly-maintained roads – and horse-drawn carts Photo: Rex Features

Inside the dilapidated public telephone exchange in Rhogozhine, a small town south of Tirana, residents place calls by pushing scraps of paper with numbers written on them through a small opening in a concrete wall. If a connection is made, an operator's hand emerges, proffering the caller a grimy telephone receiver.

Behind the opening, two switchboard operators dial patiently on old-fashioned handsets. Because the town has only two long-distance telephone lines to serve 10,000 inhabitants, failed connections and long delays are frequent, the operators say.

There are just 250 private telephones in Rhogozhine, belonging to families whose names and addresses appear on labels stuck to elderly manual switchboards – one Russian and another made in Italy before the second world war.

Albania has only 1.4 fixed-wire telephones for every 100 inhabitants, compared to 6.3 in Macedonia and 49 in Greece. Lines are now easily available in Tirana, thanks to the installation of a digital exchange, but in the countryside where two-thirds of the population live, there are so few telephones that Albanians working abroad relay messages home through special programmes broadcast by local radio stations.

The modernisation of Albania's neglected infrastructure, from telecommunications and power and water supplies to roads, harbours and airports, is assuming more urgency as the government seeks to sustain high economic growth and attract foreign investment in sectors that are important for the future, such as mining, tourism and energy.

Albania's policy of self-isolation under communism added an ideological obstacle to the development of transport and telecommunications, which was already hampered by its ruggedly mountainous terrain. In the past three years, the rapid expansion of trade, together with the effects of restructuring in key sectors such as agriculture, have put an enormous strain on the country's inadequate utilities and transport system.

About 60 per cent of Albania's current three-year Lek122.5bn programme for public investment is being spent on repairing and modernising basic infrastructure. The plan, launched last year, includes Lek33.7bn in funding for transport improvements and Lek22.7bn for upgrading water supplies. A total of Lek10.8bn is earmarked for the energy sector and Lek3.6bn for telecommunications.

According to Mr Edmond Leka, head of the finance ministry's economic development department, about 60 per cent of the current investment programme is being financed through foreign aid. In addition to loans from the World Bank, Japan and the European Bank for Reconstruction and Development, funding is provided by EU grants and bilateral donors, led by Italy.

In the longer term, however, the government will have to seek private-sector investment and build-operate-transfer projects in order to complete the rebuilding of infrastructure. As a first step, the energy sector – including power generation and distribution – is being opened up to strategic investors.

Mr Abdyl Xhaja, energy minister, says the government is looking for strategic investors to take stakes of 70 per cent in the electricity distribution networks for Vlora, Elbasan and Shkodra, three of Albanian's largest cities. "First comes the privatisation of distribution, then of electricity generation," he says. "New capacity will be privately owned, and only transmission will remain in state hands."

In the meantime, the public investment programme calls for outlays of Lek9.9bn to rehabilitate four of the 10 ageing Russian and Chinese-built hydropower plants which provide some 90 per cent of Albania's electricity output, and to reduce power losses in the inefficient electricity transmission and distribution systems.

While industrial consumption has fallen sharply with the closure of many Albanian factories, households are consuming more electricity than ever. Their use of newly-acquired consumer goods such as washing machines, driers and space heaters has overwhelmed urban distribution networks. There are daily power cuts in Tirana and other cities in the winter months.

A report by the World Bank estimates that as much as 49 per cent of Albania's total electricity output is lost from the distribution system, with theft by households making illegal connections to the network accounting for some 36 per cent.

Another unexpected outgrowth of the market economy, a surge in ownership of private vehicles after a 50-year ban under communism, is blamed for the swift deterioration in Albania's roads network. There are now more than 94,000 private cars in Albania, compared with fewer than 10,000 in 1991 when the ban was lifted.

Investment in roads is focused on creating north-south and west-east corridors for cross-border traffic. But the immediate priority has to be the widening and resurfacing of narrow, pot-holed highways used both by transit trucks and local traffic, including pack-mules and horse-drawn carts.

Mr Arben Babameto, state secretary for transport, says: "It's true that the roads have been getting worse, not better. This is because funds for renovation are not sufficient, and have sometimes been used badly."

A total of Lek4.6bn is allocated for upgrading the 430km north-south road from the border with Montenegro to Kakavije on the Greek frontier.

Another Lek7.1bn will go towards improving the mountainous 240km east-west corridor from the port of Durres to the Macedonian border, which is planned to become a transit route from the Adriatic through Albania, Macedonia and Bulgaria to the Black Sea.

Durres port itself is being modernised through a Lek3.8bn project to improve docking, cargo handling and warehouse facilities. The plan also provides for construction of a ferry terminal to handle a rising volume of passenger traffic.

Albania's fixed-wire telecoms network is gradually being improved. Five more digital switches are to be installed, adding 54,000 new lines to city networks by 1999, and fibre-optic cable is being laid as part of a network of trans-Balkan links, but a project to improve rural telecommunications is lagging.

Last year, Albanian Mobile Communications, a state-owned company, launched the country's first mobile telephony service, a GSM network built by Alcatel of France at a cost of $8.5m. The cellular network is to cover Tirana, Shkodra and Vlora before being extended to the rest of the country.

While the mobile network should give a boost to business activity, and will reassure foreign investors of Albania's commitment to rapid development, AMC's $900 subscription fee and high operating charges are well beyond the reach of an average Albanian with a salary of about $80 a month.

PROFILE Tirana

Change built on shaky foundations

A glance at the signs outside Tirana's new cafes – Bar Soros, Dolce Vita, John Belushi Bar – reveals the impatience of young Albanian entrepreneurs to acquire wealth and fame.

Neon lights and colourful window displays contrast with the capital's drab Stalinist-era buildings, hung with lines of washing and spotted with satellite dishes. The indoor fixtures of a typical cafe – wood-panelling, stereo speakers and an espresso machine – suggest that substantial investment is needed to enter a fiercely competitive market.

Yet few of the bars, cafes and card saloons that have proliferated around the city since Albania's economic transition took off three years ago appear to be based on solid foundations. Many have been constructed illegally on publicly-owned land, including parks and recreation grounds.

The John Belushi, for example – named after the Hollywood actor of ethnic Albanian origin – is one of several cafes built on the banks of the Lana river, which carries untreated sewage through the capital.

Mr Albert Brojka, mayor of Tirana, was the governing Democratic party's boss for the capital before being voted into the city hall at last October's local elections. He says the council is reluctant to pull down illegal buildings "because these people have invested everything they have in order to put them up".

Tirana's population has swelled from 350,000 to 550,000 in the last five years and is projected to reach 1m by 2005, according to Mr Brojka. Village people poured into the city after the collapse of the communist regime, which banned Albanian families from moving to the capital and used internal exile as a political weapon against dissent.

At Kanza, on the north-western edge of Tirana, a makeshift settlement of wooden huts, built mainly by immigrants from northern Albania, is being transformed into a suburb of breeze-block homes. Its residents take electricity directly from the distribution network, and water from the mains, without paying. There are no public facilities for waste disposal.

In central Tirana, private contractors are filling spaces between decayed blocks of communist-era housing with smart new apartment buildings, to the annoyance of residents who bought their homes from the state in the early 1990s. Many such sites have been reclaimed by the descendants of former private owners and sold for development.

"We came downstairs one morning to find our garage being demolished," says Mrs Mimoza Gjoka, a social security institute employee who lives in an old apartment block near the city centre. "Now there's a six-floor building going up in the yard. It will shut out light and take away the children's playing area."

Even by the standards of communist eastern Europe, Tirana was a dull capital, with traffic restricted to bicycles, horse-carts and elderly buses. For most residents, entertainment consisted of a weekly performance at the Palace of Culture or an evening stroll along the river bank.

Small-scale business activity has transformed the city, from corner grocery shops and secondhand clothes dealers who invite customers to select a garment from a heap on the ground, to a few supermarkets and shops selling Italian-label clothes and accessories.

Billiards, bingo and video games are played around the clock in Tirana. The most popular car is a secondhand Mercedes, exuding fumes from poor-quality fuel.

Concern is growing over the environmental impact of the changes. Atmospheric pollution has increased, and although the city's main streets are kept clean, rubbish piles up in back streets and empty plots.

A United Nations Development Programme report describing urban conditions in Albania says: "The explosion in the number of vehicles in Albania has raised serious concerns about air quality...the quality of life in residential areas is greatly hampered by communal space full of mud or dirt, garbage and discarded junk...green areas have been severely encroached on by bars, kiosks and parking spaces. What green is left is poorly maintained."

Tirana's neglected infrastructure is unable to meet the demands imposed by its fast-growing population. Water is only available for four of five hours a day. The overloading of an electricity system designed for industrial rather than domestic consumers causes daily power cuts.

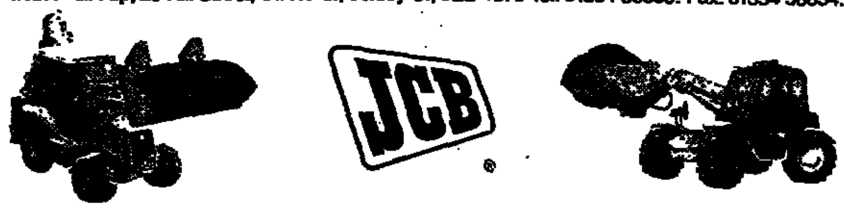
The waste disposal system is in such disrepair than raw sewage seeps into the water supply, while a plan for a biological treatment plant for Tirana, which would be the first to be constructed in Albania, is still at the study stage.

A master plan for the city, drawn up in 1991, is already out of date. The mayor says that a new land-use plan, to be completed later this year, will become the basis for an effort to control future development. He is optimistic that, as more funds become available from international agencies and bilateral donors, the city's water, power and waste disposal problems will be solved.

Funding has been secured for a $44m project to complete a new dam 15km from Tirana and build a pipeline to connect with the main water supply, Mr Brojka says. Over the next four years, $11m will be spent to upgrade the power distribution system to prevent overloading, while the installation of new metering systems will reduce theft.

"We're constructing a new state," he says. "Whatever the problems, life in Tirana is still better now than it was five years ago."

Kerin Hope



PRIVATISATION AND FOREIGN INVESTMENT • by Kevin Done

Investor sentiment is put to test

Civil unrest adds another doubt over state plans for selling strategic stakes

A derelict factory portrays the plight of many industries waiting for a new lease of life on the back of foreign investment Photo:Melanie Friend

At midday on March 10, on the third floor of the Albanian finance ministry, an auction is due to take place for the sale of a 70 per cent stake in the Elbasan cement plant – for cash. A day later, a 70 per cent stake is due to be sold in the associated limestone quarry.

The sell-off of the cement plant has for some time promised to reveal much about foreign groups' readiness to invest in the country.

In the midst of the current nationwide turmoil over the collapse of pyramid finance schemes, the start of cash sales of some of the more attractive state assets has suddenly become a much more crucial test of investor sentiment, as well as a demonstration of the government's ability to weather the present crisis and keep on track its ambitious privatisation programme.

A total of 15 companies in sectors from cement to wineries, oil product trading, printing and textiles are due to be sold next month, and another 20 are slated for sell-off in the second quarter.

Government plans to privatise strategic holdings in key industries such as cement, oil and chrome, in the utilities and in the financial sector depend crucially on attracting strategic foreign investors willing to invest both capital and modern technology.

Acceleration of the privatisation effort has been made a key priority of the new government formed by Prime Minister Aleksander Meksi after last summer's controversial general elections.

A privatisation ministry was formed by carving this function out of the finance ministry, and the appointment as privatisation minister of Mr Dylber Vrioni, the former deputy prime minister and finance minister, was designed to show a much-needed sense of urgency.

The chaotic events of recent weeks now threaten to throw the programme off course, however, and at the very least will make potential investors think very carefully about the wisdom of putting capital into a country that has become one of the most volatile in the region.

After a year of drift in 1996, as it fought both general and local elections, the right-wing government of President Sali Berisha must make up lost ground. Recent economic setbacks have jeopardised the earlier success in stabilising the economy.

The ruling Democratic party was lauded for its early reform actions, which supported the rapid growth of the private sector and sustained remarkable early progress in cutting inflation and stimulating growth in the years from 1993 to 1995.

Allied with the collapse of many state-owned heavy industry sectors, small-scale privatisation moved rapidly in the early 1990s. Most of agriculture, construction, road transport, retail trade and the food industry is now in private hands.

According to the European Bank for Reconstruction and Development, the private sector accounts for around 75 per cent of the gross domestic product of Albania, one of the highest levels achieved anywhere in the whole of former communist eastern Europe.

The government faces a formidable challenge, however, to make the leap from small-scale privatisation to privatising strategic industries and the utilities, to try to attract the kind of investment that can bring modern technology to Europe's poorest country.

A recent World Bank report said the momentum of privatisation was lost in the first rounds of a mass voucher privatisation programme launched in 1995-96, which was undermined by problems of restitution and ownership issues.

"Progress in privatising the banks is now the highest priority challenge to the government, followed by privatisation of infrastructure and strategic enterprises. Without concrete results in these areas, Albania's reform programme may lose credibility, and private sector development may be compromised," says the report.

Western financial officials maintain that it is difficult to imagine how a return to high growth and low inflation can be achieved without far-reaching privatisation and restructuring in these areas.

The turbulent clashes on the streets have added a massive new ingredient of uncertainty, but even without the crisis surrounding the collapse of the pyramid finance schemes, the trend of developments in privatisation and foreign investment was clouded. Many schemes are talked about in Albania, few come to fruition.

There are some signs however, that certain large-scale foreign investments may be about to follow the mainly small and medium-sized investments made so far from Italy and Greece in sectors such as contract production of shoes and clothing, and food processing.

Mr Selami Xhepa, director of Albania's Centre for Foreign Investment Promotion, says the sale of the Elbasan cement plant, for example, is generating strong interest, with potential buyers emerging from Greece, Italy, Switzerland, Ireland, Spain, Turkey, Belgium and as far away as China. The test will come at next month's finance ministry auction.

Mr Werner Wintermeyer, a Swiss investor who has been working in Albania for several years, says that his company – Spacelift Engineering – is close to finalising a deal to build a 1m-tonnes-a-year cement plant in southern Albania in a development that could involve a total investment of around DM540m and would create nearly 1,000 jobs. All the necessary government approvals have been received, he says, and the financing from a consortium of international banks, should be completed shortly.

Local representatives of Preussag, the German engineering, metals and mining group, insist that a deal is ready for signing for the purchase of an 80 per cent stake in the Albanian chrome industry, potentially one of the most interesting sectors, where Albania accounts for the biggest reserves of chrome ore in Europe. The joint venture which includes Preussag and Zimasco, the big chrome producer in Zimbabwe is set to pay $3.5m for its stake with a commitment to invest a further $88m to modernise the chrome mines and ferrochrome smelters, much of which were developed with Chinese technology from the 1960s.

Some scepticism still surrounds the deal, however, in the face of the collapse in ferrochrome prices on world markets during the past year.

The deal is urgently needed. A year ago Preussag had already concluded that conditions at the plants and mines were "very desolate" and had warned that "without any high investment the production of the Albanian chromium industry will collapse within the next 2-3 years". Meanwhile, backers of Anglo-Adriatic, Albania's first voucher privatisation fund, maintain that they are close to finalising several deals, which would bring foreign strategic investors into ventures ranging from brewing to pharmaceuticals.

No firm timetable exists for the key privatisations in sectors such as telecommunications and power generation, but the privatisation minister insists the government "wants to conclude this undertaking to privatise the economy and to do it soundly, steadily and legally. We are determined to go on."

Cautionary tales abound in Tirana from investors that have encountered severe difficulties with early ventures into the country, however. "This is the wild east," says one western investor in Tirana. "There is going to be trouble for some time, but that also offers opportunities. We are pressing on regardless."